

ARKANSAS

Comprehensive Annual Financial Report

**For the Fiscal Year Ended
June 30, 1999**



Mike Huckabee
Governor

Dick Barclay
Director

Department of Finance & Administration

Prepared by

The Department of Finance & Administration
Office of Accounting

Photographs Courtesy of Arkansas Highway and Transportation Department

printed on
recycled paper





Governor Mike Huckabee



STATE OF ARKANSAS
OFFICE OF THE GOVERNOR
State Capitol
Little Rock 72201

Mike Huckabee
Governor

November 10, 1999

To the Citizens of Arkansas
and the Honorable Members of
the Legislature:

I submit to you the June 30, 1999, *State of Arkansas Comprehensive Annual Financial Report* ("CAFR"). This report is an important part of our effort in timely and accurate financial reporting. It provides us a complete picture of the State's financial status and is an excellent means to meet continuing disclosure responsibilities to the national credit markets.

The State's three previous CAFRs were presented the Government Finance Officers Association's *Certificate of Achievement for Excellence in Financial Reporting*. This prestigious award represents an accomplishment of which I am quite proud. I am confident that the Department of Finance and Administration will continue to participate in this highly prestigious program.

My sincere thanks to the Department of Finance and Administration for its commitment to this project and to the other state agencies that cooperated to complete it.

Sincerely,

A handwritten signature of Mike Huckabee, written in dark ink, is positioned above the printed name.

Mike Huckabee
Governor



ACKNOWLEDGMENTS

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Special appreciation is given to John Jackson and Randy Ort, Arkansas Highway and Transportation Department, who assisted in the design of the cover and divider pages and to all personnel throughout the State, whose extra effort to contribute accurate, timely financial data for their agencies, made this report possible.

STATE OF ARKANSAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

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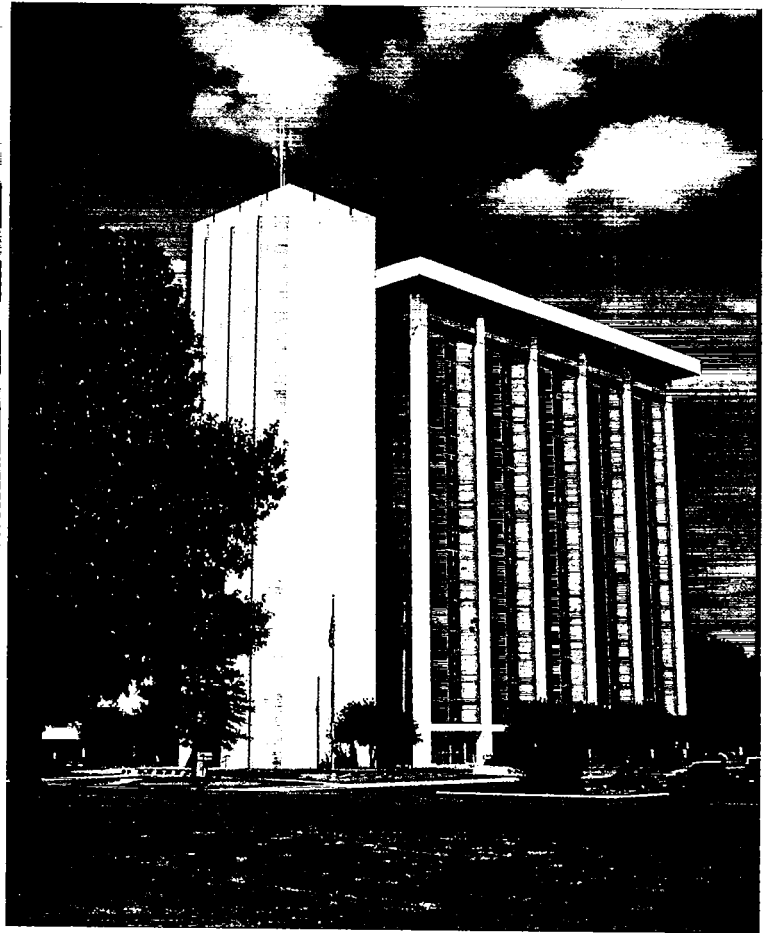
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Introductory Section

*"Arkansas Highway and
Transportation Department
is working to provide a safe,
efficient, aesthetically
pleasing and environmentally
sound intermodal
transportation system for the
citizens of Arkansas."*



**Arkansas Highway and Transportation Department's
Central Office Building**

The AHTD moved to its present headquarters
building on I-30 in southwest Little Rock in 1966.



STATE OF ARKANSAS

PRINCIPAL OFFICIALS

Elected Officials

Governor

Mike Huckabee

Lt. Governor

Winthrop P. Rockefeller, Jr.

State Treasurer

Jimmie Lou Fisher

State Auditor

Gus Wingfield

Secretary of State

Sharon Priest

Attorney General

Mark L. Pryor

Land Commissioner

Charles Daniels

Legislative Branch

President Pro Tempore

Jay Bradford

Speaker of the House

Bob Johnson

Supreme Court

Chief Justice

W.H. "Dub" Arnold

Associate Justice

Robert L. Brown

Associate Justice

Annabelle Clinton Imber

Associate Justice

Lavenski Smith

Associate Justice

Donald L. Corbin

Associate Justice

Tom Glaze

Associate Justice

Ray Thornton



OFFICE OF
THE DIRECTOR

State of Arkansas
DEPARTMENT OF FINANCE AND ADMINISTRATION
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November 10, 1999

The Honorable Mike Huckabee, Governor
The Honorable Members of the Arkansas Legislature
The Citizens of Arkansas

It is my pleasure to transmit to you the Comprehensive Annual Financial Report of the State of Arkansas (the "State") for the fiscal year ended June 30, 1999. The report has been prepared by the Department of Finance and Administration. Responsibility for both the accuracy of data and the completeness and fairness of the presentation, including all disclosures, rests with the Department of Finance and Administration. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the various funds and account groups of the State. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities have been included.

The report is presented in three sections. The introductory section includes this transmittal letter with narrative commentary on matters of interest to the reader and the State's organizational chart; the financial section includes the Independent Auditors' Report, general purpose financial statements, notes to the financial statements, required supplementary information, combining financial statements by fund type, schedules for account groups and other schedules; the statistical section includes selected financial, economic, and demographic data for the State on a multi-year basis.

All agencies, accounts, departments, boards and commissions that represent the State's reporting entity are included in this report. The criteria used in determining the State's reporting entity are fully discussed in Note 1. The State provides a full range of services including: education, health and human resources, transportation, public safety, conservation of natural resources, economic development and regulation of businesses and professionals.

ECONOMIC CONDITION AND OUTLOOK

The longest and most prosperous expansion in Arkansas history can be attributed to the State's competitive performance in worker productivity and new investment. The State's work force and other factors continue to attract investment in other sectors as well as manufacturing to the State. The fundamental determinant of wages is productivity; but wages are not the only determinant of the favorable rate of investment in Arkansas. Energy costs, investment in public infrastructure, geographical location, other labor compensation costs, housing costs, educational investment, environment, and State fiscal policy also contribute to the investment climate in Arkansas.

In fiscal 1999, non-agricultural payroll employment expanded by 16,500 jobs, a 1.5% increase over fiscal 1998. Since 1988, Arkansas employment has expanded by 278,700 jobs or at a compounded annual growth rate of 2.9%. The current record level of employment as of October 1999, of 1,199,700 jobs has been accompanied by a decline in the unemployment rate from 5.6% in 1998 to 4.2% in October 1999.

A longer term perspective shows that the unemployment rate fell from 7.8% in 1988, or from 85,900 people in fiscal 1998 to 52,700 in fiscal 1999. In addition, while State employment rose and unemployment fell, the State's population grew by 203,500 persons.

In fiscal 1999, real output of final goods and services, totaled \$56,043 million, an increase of 3.97% or \$2,142 million over fiscal 1998. Real output has grown at an annual compound rate of 3.7% since fiscal 1988.

The measure of real output per payroll employee is an important indicator of a broad-based improvement in the economic well being of the State's workers. Output per payroll employee has climbed from \$44,995 in fiscal 1988 to \$48,819 in fiscal 1999 as measured by constant 1992 dollars. This amount is 81.0% of the U.S. average up from 77.5% in fiscal 1991. Since fiscal 1988 the compound annual rate of growth of payroll worker productivity is 0.82%. This rate compares favorably to a U.S. growth rate of 0.85% per annum.

In fiscal 1998, average hourly earnings in manufacturing in Arkansas reached \$11.11 an hour, up from \$10.78 in fiscal 1997. Wages are now 82.4% of the national average of \$13.49, up from 79.2% in fiscal 1988.

Real investment in non-residential plant, buildings, and equipment rose from an annual amount of \$3.7 billion in fiscal 1988 to \$7.2 billion in fiscal 1999. This is an annual compound rate of growth of 6.8%.

Personal income consists of wages and salaries, dividends, interest, rent and transfer payments such as retirement incomes. Personal income does not include realized capital gains from the sale of assets. Personal income is measured in current dollars and reached a total of \$54,171 million in fiscal 1999 up by \$2,408 million or 4.7% over fiscal 1998. Since fiscal 1988, personal income has climbed from \$28,661 million at a compound annual growth rate of 6.3%.

Real disposable income has expanded every year from the fiscal 1988 level of \$30,128 million to the fiscal 1999 level of \$41,395 million at a compound annual growth rate of 3.23%.

Per capita income has grown from \$12,229 in fiscal 1988 to \$21,187 in fiscal 1999, for a compound annual growth rate of 5.45%. During this time, the State's population has increased from 2,343,700 to 2,557,000, an increase of 213,300 persons or an annual rate of growth of 0.84%. In addition, the State's share of U.S. per capita income rose from 74.1% in fiscal 1988 to 77.4% in fiscal 1999. The gap reflects differences in output per worker as well as differences in the cost of living and taxation levels.

Retail sales have risen from \$13.94 billion in fiscal 1988 to \$24.13 billion in fiscal 1999 for a compound annual growth rate of 5.6%.

MAJOR INITIATIVES

Highways and Transportation

The Governor established the need for an improved and well-maintained transportation infrastructure as vital to Arkansas' growth and prosperity. Working with the Legislature, the Governor signed Act 1028 of 1999 which provides for increases in diesel fuel and gasoline taxes over a period of years. The money will fund improvements to interstate highways and provide an accelerated completion schedule for the 1991 highway improvement program to improve other secondary roads. Act 1027 of 1999 allowed the Governor to call a special election to refer to the voters a bond issue to finance repair of the interstate highway system, which is ranked as one of the worst in the nation. The bonds will be repaid using future federal funds earmarked for interstates, the money from the diesel fuel tax increase in Act 1028, and state matching funds set aside to match federal turnback funds. Voters approved the bond issue in a statewide election held on June 15, 1999.

Tax Reform and Tax Relief

Actions of the 82nd General Assembly and the Governor resulted in significant accomplishments in tax reform and tax relief. Property tax refunds were increased, a Property Taxpayers' Bill of Rights was established, a law was passed requiring a county assessor to give notice to a property owner at least 45 days before a reappraisal, as well as a host of other property tax reform measures. Act 1185 of 1999 requires each county to institute a system of regular revaluation of all real estate. The revaluation efforts will be funded by the State. Counties have the option to conduct their own revaluation programs or contract the work to private firms. In either case, counties must adhere to new standards that ensure fairness and equity. Any assessment increases resulting from the revaluation efforts will be phased in over three years.

Several measures passed and signed by the Governor provided for income tax reform and relief, in particular to encourage saving and provide relief through changes in dependent tax credits and the state income tax credit for household and dependent care. Finally, Act 1005 of 1999 excludes the first 30% of a capital gain from the state individual income tax.

STAR System

STAR stands for **ST**reamline **A**uto **R**enewal. STAR is an easy way for Arkansas residents to renew motor vehicle registrations any time of the day or night from the comfort of their own home. Using the internet or a touch tone telephone, the system is available 7 days a week, 24 hours a day with the exception of the period of time between 11:50 PM to 12:10 AM.

All county assessors and collectors are provided with a method of reporting taxpayer's assessments and tax payments on-line in the STAR system. Insurance companies also report all vehicles insured to the State. This allows the State to create a shared database that includes assessment and tax collection information as well as vehicle insurance records.

An Arkansas taxpayer can enter a Revenue Office without taking proof of assessment, tax payment, and proof of liability insurance on their vehicle and process the auto renewal.

Education

The Governor proposed far reaching legislation in the area of Education that was passed during the 82nd General Assembly. Funding for the Smart Start Initiative was included in the budget for the Department of Education. Legislation was passed to allow for creation of charter schools by either converting existing schools or starting new ones. Repeal of unnecessary laws and changes in existing laws which will enhance the ability to administer effective programs in education were also passed. Legislation was also passed which provides for the first time, financial rewards for teachers who receive national certification.

Proposals passed during this session will have long lasting effects for higher education. Act 858 of 1999 raises the family income limit on the Academic Challenge Scholarship Program. This will allow more students to attend college and will encourage Arkansans to attend college in-state. Act 1158 of 1999 requires the Workforce Education and Career Opportunities Board to develop a performance-based accountability system for post-secondary and technical institutions. Act 652 of 1999 establishes the Arkansas Technical Careers Loan Forgiveness Program to assist students who will fill special needs areas in the technical skill fields.

Economic Development

In an increasingly competitive environment for economic development that includes nationwide competition for high paying jobs, Arkansas' economic development efforts have been retooled and refocused with remarkable results for the future of the State. Act 995 of 1999 amends the Manufacturers Investment Tax Credit Act of 1985 to expand eligibility to include businesses engaged in a variety of services. Income tax credits were passed for eligible businesses undertaking large capital investment or job-creation projects, and for companies purchasing or constructing a facility that designs, develops or produces electric vehicles or the fuel cells that power them. Another program, established by Act 448 of 1999, creates a two-year pilot program operated by the Department of Economic Development that makes participation loans in amounts from \$5,000 to \$80,000 to small business owners in the state.

Law Enforcement, Criminal Justice, and Juvenile Justice Reform

Government's most basic role is to keep our communities safe. The March 1998 shootings at Westside Middle School near Jonesboro and problems with the juvenile justice system prompted the Governor to propose legislation passed by the 82nd General Assembly. Act 1192 of 1999 authorizes juvenile judges to impose adult sanctions on offenders younger than 13 if convicted of capital or first-degree murder and judged competent to stand trial. It also allows 14 and 15 year olds convicted of a violent crime to receive adult sanctions. Significant funds were provided the Department of Human Services - Division of Youth Services to address adequate facility and equipment needs of supervising young offenders.

Act 565 of 1999 allows, at a prosecutor's request, state Crime Lab analysts to testify in court by two-way closed-circuit or satellite-transmitted television. Legislation was passed to address a plan for a statewide radio system. A group of representatives from various state agencies will make recommendations to the Governor and the Legislative Joint Committee on Advanced Communications and Information Technology by March 31, 2000. To add to the State's infrastructure for training law enforcement officers, Act 688 of 1999 authorizes construction of the Northwest Arkansas satellite training facility. Act 1213 of 1999 provides personnel and equipment for the Western Regional Drug Laboratory.

Family Issues

The Administration had clear recommendations in the areas of adoption reform and divorce reform for consideration by the 82nd General Assembly and had great success in passing several significant laws. Compliance with the federal Adoptions and Safe Families Act was accomplished with passage of Act 401 of 1999. Act 704 of 1999 allows judges to require divorcing parents of minors to complete two hours of parenting classes or require them to take part in divorce mediation.

Act 328 of 1999 extends subsidy payments from age 18 to 21 if a child has a documented disability that prevents him from living independently. Act 517 of 1999 amends the guardianship statute to comply with the Adoption and Safe Families Act. It allows any parent who is chronically ill or near death, without surrendering parental rights, to have a standby guardian appointed by the court. Finally, Act 518 of 1999 amends the adoption code to allow foster children to be adopted by their foster parents more quickly when they have been living in the home six months or longer.

Health and Human Services

Continuing the progress made in recent years, the Governor recommended passage of Act 849 of 1999, which changed the ARKids First Program from a pilot program to a permanent program. Originally passed in 1997, ARKids First provides preventive health care insurance to the children of those making up to 200% of the poverty level. There are more than 38,000 children already insured through the program. Act 1181 of 1999 established a Nursing Home Patients' Bill of Rights.

Government Efficiency and Anti-Corruption

Significant strides were made during the 82nd General Assembly toward improvements in government efficiency and anti-corruption legislation. The Governor signed into law several acts addressing these areas. Act 1061 of 1999 authorizes the Department of Finance and Administration to implement the Career Ladder Incentive Program for state employees. This legislation is complemented by passage of Act 222, which allows for a pilot project in performance-based budgeting. A major new project that also will pave the way for implementation of Performance Based Budgeting is authorization of a new statewide integrated information system.

Anti-corruption legislation was passed to protect public employees from retaliation by their employers when an employee has told the appropriate authority about a violation of the law or a waste of public money, property or manpower. Act 34 of 1999 prohibits constitutional officers, legislators and their spouses from receiving employment during and two years after their term in office. It prohibits job enhancement if the constitutional officer, legislator or spouse has a state job prior to the term in office. It also restricts constitutional officers, legislators and their spouses from entering into contracts and lease agreements or receiving grants unless the contract, lease or grant involves a competitive bid.

Military and Veterans Affairs

Act 270 of 1999 approves and provides an appropriation for construction of a State Veterans Cemetery on 75 acres donated by Camp Robinson. The State will loan \$500,000 to open the cemetery, and the federal government will repay those funds.

Electric Deregulation

Act 1556 of 1999 establishes the framework for a transition to competition in the electric industry. It will deregulate the sale of electricity generated between January 2002 and June 2003. It contains guidelines for how a utility's stranded costs are to be determined, requires that all reasonable cost mitigation measures be implemented, requires any utility's over-earnings to be used as an offset to stranded costs and allows the Public Service Commission discretion in every phase of the stranded-cost proceedings. The bill provides for a rate freeze for residential and small business customers for up to three years and continued rate regulation for customers who don't choose alternate energy suppliers.

FINANCIAL MANAGEMENT

The financial statements of the State are prepared in accordance with generally accepted accounting principles ("GAAP") which requires that specific fund types be used on the combined balance sheet.

There are four categories of funds. The first category is the governmental fund. The general fund is used to account for all general government activities not accounted for in another fund and is the only governmental fund currently in use.

The proprietary fund is used to account for activities similar to the private sector, where the determination of net income is necessary or useful for sound financial administration. A component of the proprietary fund is the enterprise fund which provides goods and services to outside parties.

The fiduciary fund is used to account for assets held on behalf of outside parties or other funds within the government. When assets are held under the terms of a formal trust agreement, a pension trust fund or expendable trust fund is used. The term “expendable” refers to the ability of the governing agent to spend the trust principal. Agency funds generally are used to account for assets that the government holds on behalf of others as their agent.

The higher education fund presents the State supported colleges and universities in accordance with the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, and guidance as outlined by the National Association of College and University Business Officers and Governmental Accounting Standards Board.

Under GAAP, fund balance represents the excess of assets over liabilities. Therefore, it is possible for fund balance to remain unchanged while cash balances decrease or increase. In addition, certain amounts of fund balances may be reserved or “not spendable.”

Internal Controls

The management of the State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft or misuse and that adequate accounting data is compiled to allow the preparation of the financial statements in conformity with GAAP. The internal control structure has been designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, the reliability of financial records for preparing financial statements, and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

Budgetary control is maintained through legislative appropriation. Agencies submit budgetary requests to the Department of Finance and Administration. The Department of Finance and Administration compiles the executive budget on behalf of the Governor who submits it to the Legislature. The Department of Finance and Administration maintains control over the spending patterns of the State after the approval of the budget through control at the line item level. See Note 2 (Budgetary Basis Reporting – Budgetary Process) for further discussion of budgetary controls.

General Government Functions

Most State functions are financed through the general fund. The State's most significant sources of revenues in the general fund (GAAP basis) are taxes and intergovernmental. The State's most significant areas of expenditures from the general fund (GAAP basis) are the areas of public and higher education and health and human resources. The following charts present actual general fund (GAAP basis) revenues and expenditures for the fiscal year ended June 30, 1999 (expressed in thousands):

Revenues	1999	1998	Increase (Decrease) Percent
Personal income tax	\$ 1,625,316	\$ 1,553,778	4.60 %
Consumer sales tax	1,560,892	1,476,686	5.70 %
Corporate net income tax	248,664	268,605	(7.42)%
Gas and motor carrier tax	386,503	368,050	5.01 %
Other taxes	353,136	361,071	(2.20)%
Intergovernmental	2,459,368	2,387,385	3.02 %
Other revenues	936,410	746,333	25.47 %
Total	<u>\$ 7,570,289</u>	<u>\$ 7,161,908</u>	<u>5.70 %</u>

REVENUE BY SOURCE FOR GENERAL FUND - 1999



- Personal income tax
- Consumer sales tax
- Corporate net income tax
- Intergovernmental
- Other taxes
- Gas and motor carrier tax
- Other revenues

Expenditures	1999	1998	Increase (Decrease) Percent
Education	\$ 1,959,309	\$ 1,883,809	4.01 %
Health and human resources	2,614,967	2,496,628	4.74 %
Transportation	559,572	635,188	(11.90)%
Law, justice and public safety	311,176	265,313	17.29 %
Recreation and resource development	170,619	177,838	(4.06)%
General government	992,322	724,127	37.04 %
Regulation of businesses and professionals	139,345	121,450	14.73 %
Debt service	57,917	54,876	5.54 %
Capital outlay	120,525	110,988	8.59 %
Total	<u>\$ 6,925,752</u>	<u>\$ 6,470,217</u>	<u>7.00 %</u>

EXPENDITURES FROM GENERAL FUND - 1999



- Education
- Capital outlay
- Transportation
- Regulation of businesses and professionals
- Health and human resources
- Law, justice and public safety
- General government
- Recreation and resource development
- Debt service

Governmental revenues increased modestly by 5.70%, reflecting additional personal income tax revenue and consumer sales tax revenue of \$71.5 million and \$84.2 million, respectively. Intergovernmental revenues increased by \$72 million due to increased fundings from the federal government for the Medicaid program. Consumer sales tax increased due to the strong economic growth of the State including an increase in personal income of approximately 4.8% over the prior year.

Expenditures increased in fiscal year 1999 by 7.00% as the demand for governmental services rose consistently with the increase in revenues. The principal reasons for the increase is due primarily to increases in health and human resources and general government expenditures.

Proprietary and Fiduciary Funds

The State's enterprise operations include the Workers' Compensation Commission, the Construction Assistance Revolving Loan Fund, and Other Revolving Loan Funds. Since it is the intent of these programs to primarily recover operating costs (including depreciation) through user charges, they utilize an accrual basis of accounting with a measurement focus on the flow of economic resources.

Fiduciary funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units or other funds. These include the expendable trust, pension trust and agency funds. Trust funds are established through trust agreements specifying how the funds will operate. Agency funds are custodial in nature and do not report fund balances. The trust funds include the Employment Security Division, Arkansas Judicial Retirement Plan, Arkansas Teacher Retirement Plan, Arkansas State Police Retirement Plan, Arkansas Highway Retirement Plan and Arkansas State Employees Retirement Plan. Agency funds include the State Insurance Department and Other Agencies.

Component Units

The component units include the accounts of Arkansas Student Loan Authority and Arkansas Development Finance Authority. These authorities are legally separate entities that are not operating departments of the State and are managed independently with their powers generally vested in a governing board. Each authority is established for a specific purpose, such as education and economic development.

Combined operating revenues and expenses for the State's authorities amounted to approximately \$99 million and \$124 million, respectively, for fiscal year 1999. The total combined amount of retained earnings at fiscal year end was \$134 million.

Debt Administration

The Constitution of the State of Arkansas does not limit the amount of general obligation bonds which may be issued by the State; however, no such bonds may be issued unless approved by the voters of the State at a general election or special election held for that purpose. The total outstanding general obligation bonded indebtedness, including special obligation and other debt instruments, of the governmental fund types of the State as of June 30, 1999, was approximately \$399 million. Arkansas currently has a rating of Aa3 from Moody's Investors Service and a rating of AA from Standard and Poors.

Cash Management

State funds are invested by the Treasurer and also by various state agencies, including the retirement systems and institutions of higher education. Permissible investments include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government Obligations); repurchase agreements; corporate debt and equity obligations; and state and local government securities.

Risk Management

The State manages risk with a combination of self-insurance and commercial policies. The State established the Risk Management Office in accordance with State law for the purpose of analyzing and making recommendations as to cost effective loss control and safety programs for the various State agencies.

The State also established the State Employees Insurance Advisory Committee (the "Committee") by Act 48 of 1972 and allowed the Committee to pursue self-funding activities by Act 576 of 1975. The Committee provides comprehensive major medical care, prescription drug and life insurance for employees of the State and its participating component units, as well as their dependents, through the establishment of a variety of self-insured plans. The Committee also makes medical coverage available to retirees should they elect to continue such coverage at their own expense.

Year 2000

The State has adopted the provisions of Governmental Accounting Standards Board Technical Bulletin 99-1, *Disclosures about Year 2000 Issues - an amendment of Technical Bulletin 98-1*, which mandate certain Year 2000 disclosures either in the notes to the financial statements or in required supplementary information following the notes. The State has included such disclosures as required supplementary information following the notes to the general purpose financial statements. The State also established a website (<http://www.dis.state.ar.us/y2k/y2kintro.htm>) that discusses progress to date on the State of Arkansas Year 2000 Project.

Audit

The firm of Deloitte & Touche LLP performed the audit for the fiscal year ended June 30, 1999. Generally accepted auditing standards were used by the auditors in conducting the engagement. The auditors' report on the general purpose financial statements is included in the financial section of this report.

Awards

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Arkansas for its Comprehensive Annual Financial Reports for the fiscal year ended June 30, 1998. This was the third consecutive year that the State has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

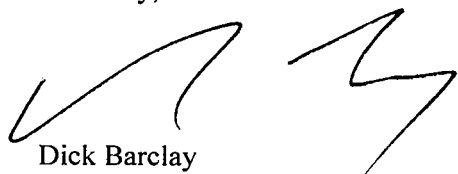
A Certificate of Achievement is valid for a period of one year only. We believe that our current report continues to conform to the Certificate of Achievement program requirements, and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

Recognition for the leadership of accurate and timely financial reporting lies with Governor Mike Huckabee. He has made fiscal responsibility a high priority in his administration and his leadership has been crucial to the project's success. Governor Huckabee believes that this project will provide overall improvements in government accountability. It will save the State interest expense by providing market analysts, potential investors and others with complete, comparable financial information. It will provide the Legislature and others in key positions that require them to make financial decisions with clear, concise and complete financial data that is free of ambiguities or any misleading facts. The Governor's commitment to this project, especially his support of continued funding, demonstrates his firm belief in our continuing progress.

This report also would not be possible without the support of all state agencies that provided GAAP closing data on a timely basis. The future success of this project directly depends upon their continued cooperation and support as well.

Sincerely,



Dick Barclay
Director
Department of Finance and Administration



Certificate of Achievement for Excellence in Financial Reporting


Presented to

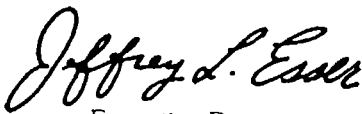
State of
Arkansas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1998

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



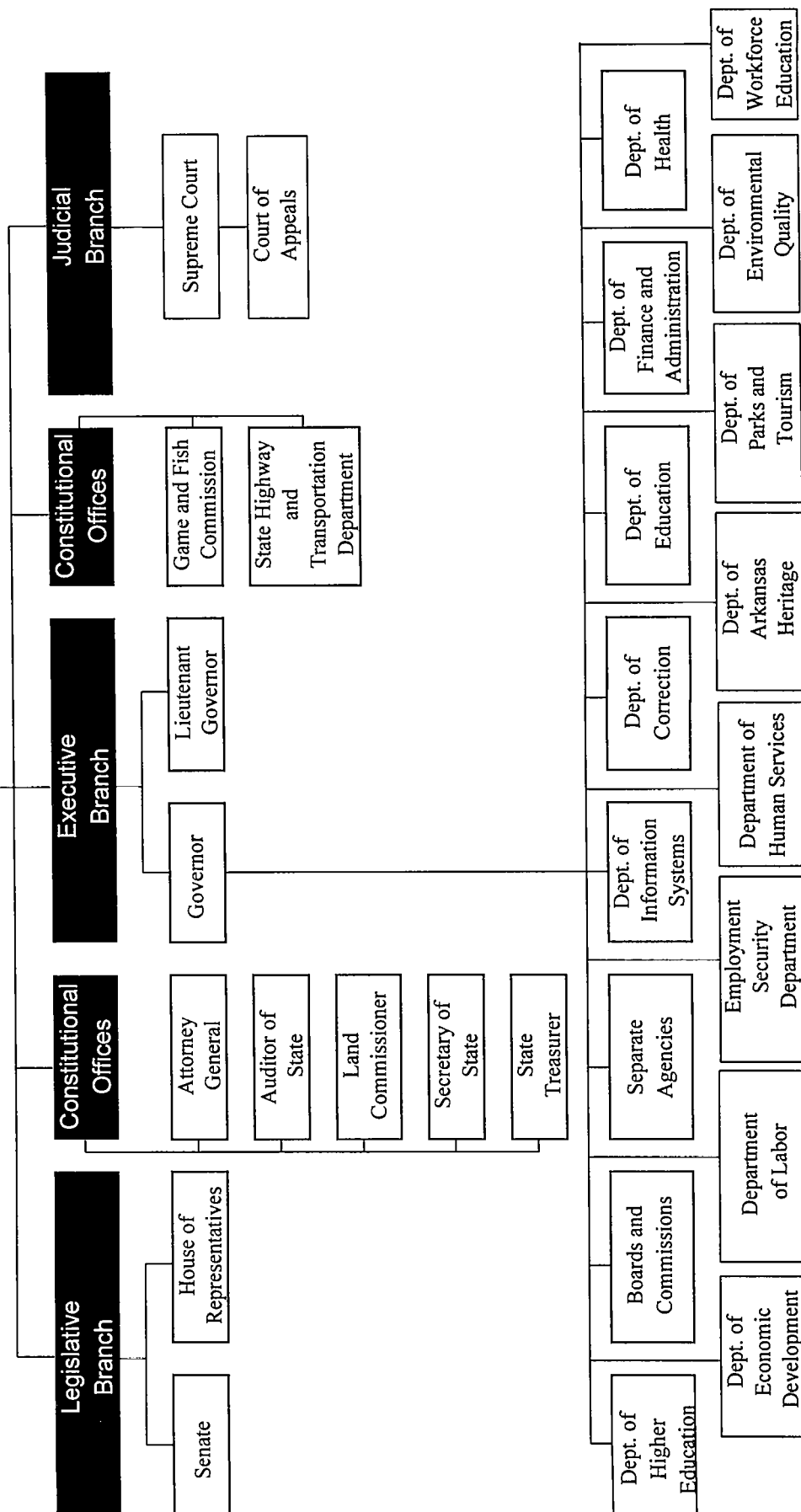

President

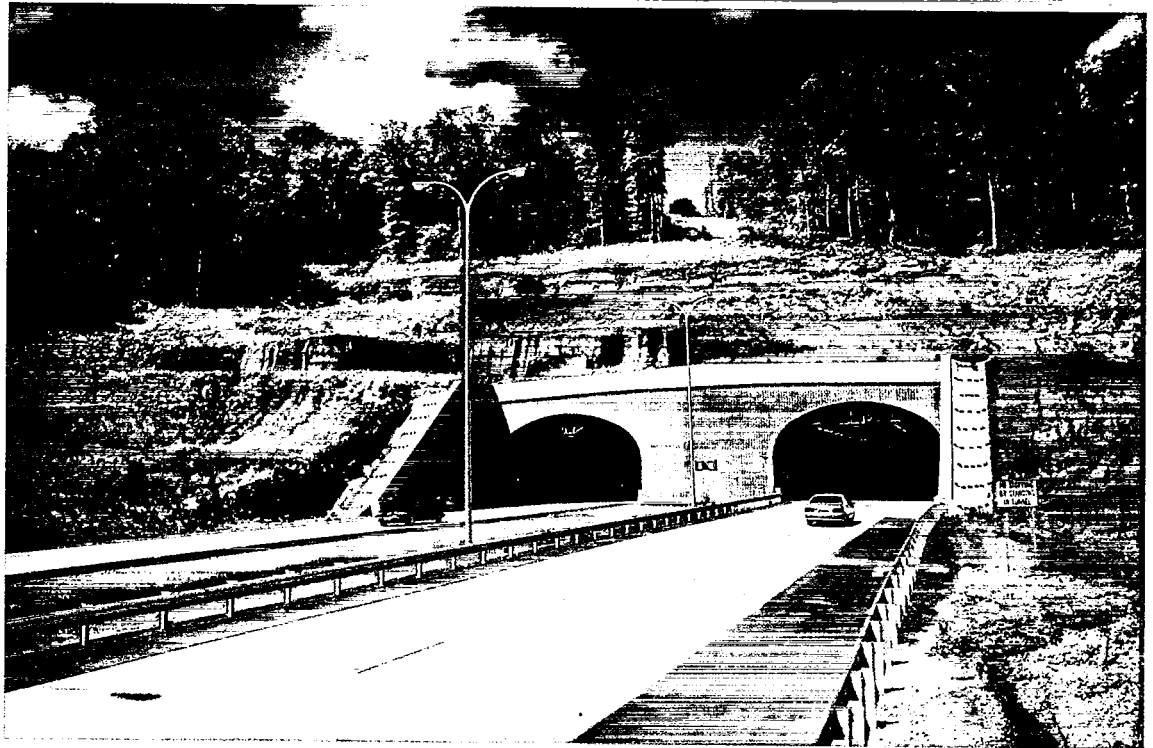

Executive Director

State of Arkansas

Organizational Chart

VOTERS





I-540 – Washington County

Completion of I-540 from Alma to Fayetteville, including the Bobby Hoppe tunnel near Winslow, was a major milestone in 1999. This view is of the south portal of the tunnels looking north.







FEB 15 2000

DPC DATA-NRMSIR

INDEPENDENT AUDITORS' REPORT

Deloitte & Touche LLP
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The Honorable Mike Huckabee, Governor
of the State of Arkansas

We have audited the accompanying general purpose financial statements of the State of Arkansas (the "State"), as of June 30, 1999, and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the management of the State. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Arkansas Student Loan Authority, which reflect total assets of \$236 million as of June 30, 1999, and total revenues of \$17.2 million for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for those activities, is based solely on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the report of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund type and discretely presented component units for the year then ended in conformity with generally accepted accounting principles.

As more fully discussed in Note 6, management of the State has restated certain June 30, 1998, fund equity balances for a correction of prior year amounts related to the reporting of revolving loan fund programs.

The year 2000 supplementary information on pages 71-73 is not a required part of the general purpose financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been

established. In addition, we do not provide assurance that the State is or will become year 2000 compliant, that the State's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State does business are or will become year 2000 compliant.

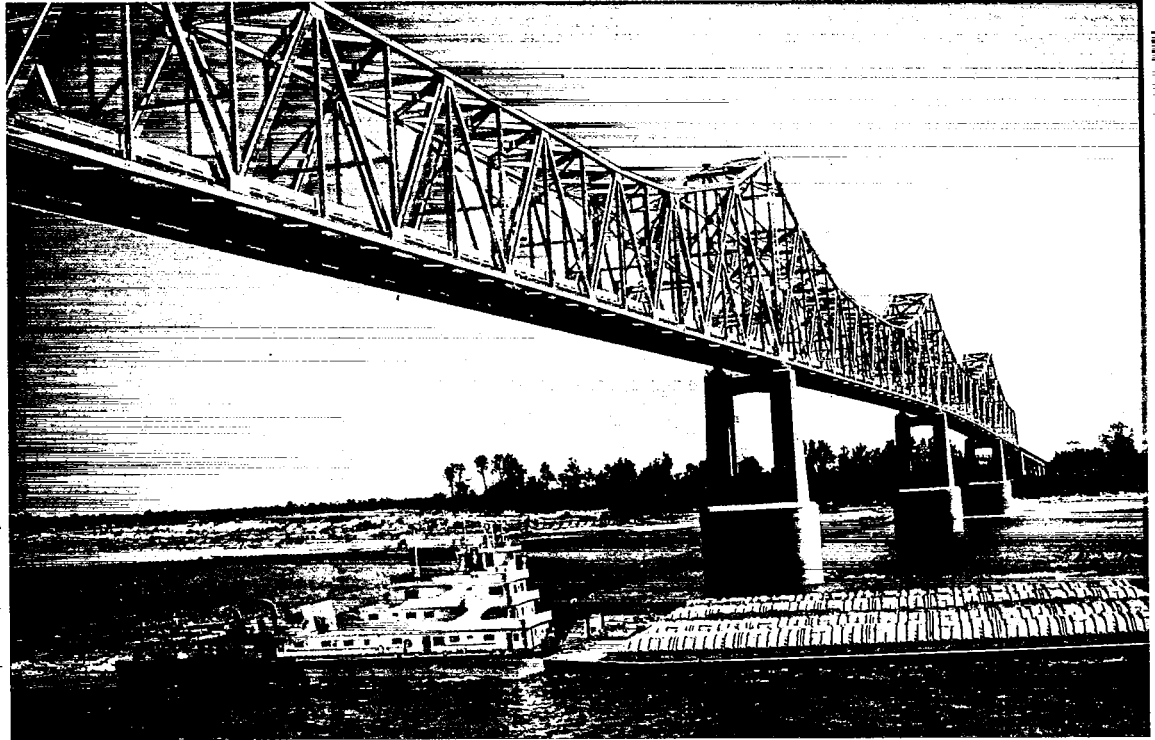
Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules, as listed in the foregoing table of contents, are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of the State. These financial statements and schedules are also the responsibility of the management of the State. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, based on our audit and the reports of other auditors, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

The introductory and statistical data listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State. Such additional information has not been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, accordingly, we express no opinion on it.

Deloitte & Touche LLP

November 10, 1999

General Purpose Financial Statements



Highway 49 – Helena

The Highway 49 bridge crossing the Mississippi River at Helena provides the only river crossing between Memphis to the north and Greenville, Mississippi to the south.



Combined Balance Sheet**All Fund Types, Account Groups and Component Units**

June 30, 1999

(Expressed in Thousands)

	Governmental Fund Type	Proprietary Fund Type	Fiduciary Fund Type
	General	Enterprise	Trust and Agency
ASSETS AND OTHER DEBITS:			
Cash and cash equivalents	\$1,142,733	\$197,400	\$ 988,020
Investments	302,955	31,304	13,584,354
Receivables, net:			
Accounts	47,189	10,004	48,515
Taxes	280,949		
Employer			9,062
Employee			5,369
Notes and deposits	37,595		
Medicaid	136,510		
Loans	126,774	171,175	
Investment related	12,705	2,539	279,660
Due from other governments	32,416		5,801
Due from other funds - primary government	949		229
Due from other funds - higher education			
Advances to other funds - primary government	16,430		22,923
Inventories	29,352		
Fixed assets, net			
Other assets		2,492	950
Amount available for debt service		13,334	8
Amount to be provided for debt retirement			
TOTAL ASSETS AND OTHER DEBITS	\$2,166,557	\$428,248	\$ 14,944,891
LIABILITIES, EQUITY AND OTHER CREDITS:			
Liabilities:			
Accounts payable	\$ 54,185	\$ 2,552	\$ 483
Accrued and other liabilities	70,244	13,887	1,723,702
Deferred revenues		3,892	
Due to other governments	82,268		61
Due to other funds - primary government	4,251		93
Due to other funds - higher education			
Advances from other funds - primary government	22,923		
Workers' compensation benefits payable		168,120	
Medicaid claims payable	166,889		
Tax refunds and abatements payable	66,933		
Claims and judgments payable	9,071		
Agency liabilities			478,457
Capital leases		2,036	
Notes payable			
Revenue bonds payable			
Special obligation bonds payable		118,058	
General long-term debt payable			
Total Liabilities	<u>476,764</u>	<u>308,545</u>	<u>2,202,796</u>
Equity (deficit) and other credits:			
Investment in fixed assets			
Retained earnings (deficit) - unreserved		(6,807)	
Retained earnings - reserved for bond programs			
Contributed capital			
Fund balances:		126,510	
Reserved:			
Loans	126,774		
Advances to other funds	16,430		
Inventory	29,352		
Capital projects	85,339		
Higher education			
Unemployment compensation			
Net assets held in trust for pension benefits			248,872
Debt service			12,493,223
Unreserved:	24,521		
Designated			
Undesignated	1,407,377		
Total Equity and Other Credits	<u>1,689,793</u>	<u>119,703</u>	<u>12,742,095</u>
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	\$2,166,557	\$428,248	\$ 14,944,891

The accompanying notes are an integral part of the financial statements.

Higher Education Fund Type	Account Groups		Total Primary Government (Memorandum Only)	Component Units
Colleges and Universities	Fixed Assets	Long-Term Debt		
\$ 415,573			\$ 2,743,726	\$ 155,938
544,996			14,463,609	921,221
142,471			248,179	3,703
			280,949	
			9,062	
			5,369	
44,944			82,539	
			136,510	
			297,949	604,645
2,115			297,019	11,979
			38,217	
4,022			5,200	
13,879			13,879	
			39,353	
16,680			46,032	
2,120,636	\$1,085,490		3,209,568	495
13,751			27,093	95,380
		\$ 24,521	24,521	
		658,349	658,349	
<u>\$ 3,319,067</u>	<u>\$1,085,490</u>	<u>\$682,870</u>	<u>\$22,627,123</u>	<u>\$1,793,361</u>
\$ 65,297			\$ 122,517	\$ 6,509
350,641			2,158,474	56,623
13,555			17,447	
			82,329	
856			5,200	
13,879			13,879	
16,430			39,353	
			168,120	
			166,889	
			66,933	
			9,071	
			478,457	
5,826			7,862	
12,188			12,188	
418,921			418,921	219,781
			118,058	1,376,337
		\$682,870	682,870	
<u>897,593</u>	<u></u>	<u>682,870</u>	<u>4,568,568</u>	<u>1,659,250</u>
1,759,375	\$1,085,490		2,844,865	
			(6,807)	52,804
			126,510	81,307
			126,774	
			16,430	
			29,352	
			85,339	
375,264			375,264	
			248,872	
			12,493,223	
			1,431,805	
286,835			286,835	
<u>2,421,474</u>	<u>1,085,490</u>	<u></u>	<u>18,058,462</u>	<u>134,111</u>
<u>\$ 3,319,067</u>	<u>\$1,085,490</u>	<u>\$682,870</u>	<u>\$22,627,123</u>	<u>\$1,793,361</u>

Combined Statement of Revenues, Expenditures and Changes in Fund Balances All Governmental Fund Types and Expendable Trust Fund

**For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)**

	Governmental Fund Type	Fiduciary Fund Type
	General	Expendable Trust
REVENUES:		
Taxes:		
Personal income	\$ 1,625,316	
Consumer sales	1,560,892	
Corporate net income	248,664	
Gas and motor carrier	386,503	
Unemployment		\$205,112
Other	353,136	
Intergovernmental	2,459,368	
Licenses, permits and fees	438,174	
Investment earnings	108,000	15,025
Other	390,236	
Total Revenues	7,570,289	220,137
EXPENDITURES:		
Current:		
Education	1,959,309	
Health and human resources	2,614,967	
Transportation	559,572	
Law, justice and public safety	311,176	
Recreation and resource development	170,619	
General government	992,322	
Regulation of businesses and professionals	139,345	206,759
Debt service	57,917	
Capital outlay	120,525	
Total Expenditures	6,925,752	206,759
Excess of revenues over expenditures	644,537	
OTHER FINANCING SOURCES (USES):		
Proceeds from long-term obligations	2,115	
Proceeds from capital leases	326	
Operating transfers in	162	
Operating transfers out	(606,285)	
Total Other Financing Uses	(603,682)	
REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	40,855	13,378
FUND BALANCE AT BEGINNING OF YEAR	1,645,100	235,494
Decrease in reserve for inventory	3,838	
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ 1,689,793	\$248,872

The accompanying notes are an integral part of the financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual-Variance (Budgetary Basis) General Fund

For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes:			
Personal income	\$ 1,665,173	\$ 1,665,173	
Consumer sales	1,560,348	1,560,348	
Corporate net income	271,216	271,216	
Gas and motor carrier	386,319	386,319	
Use	514,629	514,629	
Other	817,069	817,069	
Intergovernmental	2,199,105	2,199,105	
Licenses, permits and fees	432,041	432,041	
Investment earnings	87,853	87,853	
Other	351,331	351,331	
Total Revenues	8,285,084	8,285,084	
EXPENDITURES:			
Current:			
Education	2,076,096	1,971,155	\$ 104,941
Health and human resources	2,544,968	2,405,735	139,233
Transportation	830,415	549,483	280,932
Law, justice and public safety	378,550	335,115	43,435
Recreation and resource development	305,056	179,643	125,413
General government	4,060,726	1,873,528	2,187,198
Regulation of businesses and professionals	169,558	109,366	60,192
Debt service	43,050	35,967	7,083
Capital outlay	281,935	115,544	166,391
Total Expenditures	10,690,354	7,575,536	3,114,818
Excess of revenues over (under) expenditures	(2,405,270)	709,548	3,114,818
OTHER FINANCING SOURCES (USES):			
Operating transfers in	7,924,093	7,924,093	
Operating transfers out	(8,527,932)	(8,527,932)	
Total Other Financing Uses	(603,839)	(603,839)	
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(3,009,109)	105,709	3,114,818
FUND BALANCE AT BEGINNING OF YEAR	1,645,100	1,645,100	
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ (1,364,009)	\$ 1,750,809	\$ 3,114,818

The accompanying notes are an integral part of the financial statements.

Combined Statement of Revenues, Expenses and Changes in Retained Earnings Proprietary Fund Type and Discretely Presented Component Units

For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

	Proprietary Fund Type	Component Units
	Enterprise	Proprietary Fund
OPERATING REVENUES:		
Licenses, permits and fees	\$ 7,888	
Investment earnings	8,996	\$ 97,524
Insurance tax	11,100	
Other	1,772	1,180
Total Operating Revenues	29,756	98,704
OPERATING EXPENSES:		
General and administrative	30,715	19,317
Interest	5,629	100,815
Depreciation	210	
Amortization	259	
Other		3,919
Total Operating Expenses	36,813	124,051
Operating Loss	(7,057)	(25,347)
NON-OPERATING REVENUES (EXPENSES):		
Grants, entitlements and shared revenues		17,182
Investment earnings	6,865	
Interest	(135)	
Total Non-Operating Revenue	6,730	17,182
Loss Before Operating Transfers	(327)	(8,165)
OPERATING TRANSFERS -		
Operating transfers out	(162)	
NET LOSS	(489)	(8,165)
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR, AS ADJUSTED (Note 6)	(6,318)	142,276
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	\$ (6,807)	\$ 134,111

The accompanying notes are an integral part of the financial statements.

Combined Statement of Cash Flows
Proprietary Fund Type and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

	Proprietary Fund Type	Component Units
	Enterprise	Proprietary Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (7,057)	\$ (25,347)
Adjustments to reconcile operating loss to cash provided by operating activities:		
Depreciation, accretion and amortization, net	533	(4,100)
Provision for arbitrage rebate		600
Net depreciation on investments		24,508
Provision for loan loss		380
Loss on disposal of assets	257	
Changes in operating assets and liabilities:		
Accounts receivable	1,115	5,679
Loans receivable		78,513
Investment related receivable	(106)	(2,921)
Other assets	(399)	245
Accounts payable and accrued expenses	579	(47,753)
Workers' compensation benefits payable	8,384	
Other liabilities	(475)	(1,318)
Net Cash Provided by Operating Activities	2,831	28,486
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating transfers out to other funds	(162)	
Proceeds from issuance of bonds		337,816
Repayment of bonds		(361,371)
Payment of debt issuance costs		(2,305)
Collection of financing fees		1,250
Interest expense	(134)	
Net Cash Used by Non-capital Financing Activities	(296)	(24,610)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of bonds	19,810	
Repayment of bonds	(3,155)	
Proceeds from grants, entitlements, and shared revenues	6,075	17,182
Capital lease obligation	(105)	
Acquisition of capital assets	(205)	
Net Cash Provided for Capital and Related Financing Activities	22,420	17,182
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(19,240)	(990,105)
Investment earnings	6,864	
Proceeds from sales and maturities of investments	2,776	911,519
Net increase in loans receivable	(228)	
Lease payment received		9,825
Net Cash Used by Investing Activities	(9,828)	(68,761)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,127	(47,703)
CASH AND CASH EQUIVALENTS:		
Beginning of year	182,273	203,641
End of year	<u>\$197,400</u>	<u>\$ 155,938</u>

The accompanying notes are an integral part of the financial statements.

Combined Statement of Changes in Plan Net Assets Held in Trust for Pension Benefits Pension Trust Funds

For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

	Fiduciary Fund Type
	Pension Trust
ADDITIONS:	
Contributions:	
Employer	\$ 285,425
Employee	58,905
	<u>344,330</u>
Total Contributions	
Investment income:	
Net appreciation in fair value of investments	906,725
Interest	254,160
Dividends	82,101
Real estate operating income	1,830
Other	57,838
Less investment expense	<u>(85,805)</u>
	<u>1,216,849</u>
Net Investment Income	
Other additions -	
Miscellaneous revenues	<u>9,419</u>
TOTAL ADDITIONS	<u>1,570,598</u>
DEDUCTIONS:	
Annuity benefits	381,867
Refunds of employee contributions	4,755
Administrative expenses	11,237
Other deductions	<u>5,056</u>
TOTAL DEDUCTIONS	<u>402,915</u>
NET INCREASE	1,167,683
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT BEGINNING OF YEAR	<u>11,325,540</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT END OF YEAR	<u>\$12,493,223</u>

The accompanying notes are an integral part of the financial statements.



Combined Statement of Changes in Fund Balances Higher Education Fund Type

For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

	Current Funds			Endowment and Similar
	Unrestricted	Restricted	Loan	
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenues	\$ 340,683			
Auxiliary enterprises, hospitals and clinics	547,419			
Endowment income			\$ 184	
Gifts and grants	6,985	\$ 289,117	845	\$ 436
Investment earnings	979	571	1,301	11,735
Additions to plant facilities				
Retirement of indebtedness				
Bond proceeds				
Other additions	223	698	1,112	147
Total Revenues and Other Additions	896,289	290,386	3,442	12,318
EXPENDITURES AND OTHER DEDUCTIONS:				
Education and general	865,469	285,864		
Auxiliary enterprises, hospitals and clinics	520,150	461		
Loan cancellations and write-offs			1,522	
Indirect cost recoveries		4,217		
Administration expenses			317	86
Refunded to grantors		26	37	
Retirement of indebtedness				
Expended for plant facilities				
Interest expense				
Issuance of bonds				
Disposal of plant facilities				
Other			133	1,083
Total Expenditures and Other Deductions	1,385,619	290,568	2,009	1,169
TRANSFERS AND OTHER ADDITIONS/(DEDUCTIONS):				
Mandatory:				
Principal and interest	(28,838)	(767)	3	(42)
Matching contribution	(455)	164	291	
Renewals and replacements	(2,293)			
Other mandatory transfers	(13,197)	483	72	(599)
Non-Mandatory:				
Unexpended plant funds	(799)			50
Renewals and replacements	(5,348)	(114)	(19)	
Retirement of indebtedness	(126)			
Other	(5,310)	887	47	183
Operating transfers in - primary government	537,639	9,778	535	
Total Transfers and Other Additions/(Deductions)	481,273	10,431	929	(408)
NET INCREASE (DECREASE) FOR THE YEAR	(8,057)	10,249	2,362	10,741
FUND BALANCE AT BEGINNING OF THE YEAR	197,605	36,114	48,457	110,835
FUND BALANCE AT END OF THE YEAR	\$ 189,548	\$ 46,363	\$50,819	\$121,576

The accompanying notes are an integral part of the financial statements.

Plant Funds	Total
	\$ 340,683
	547,419
	184
\$ 43,069	340,452
8,505	23,091
244,156	244,156
21,351	21,351
54,395	54,395
27,059	29,239
<u>398,535</u>	<u>1,600,970</u>
	1,151,333
	520,611
	1,522
	4,217
1,672	2,075
805	868
29,585	29,585
188,287	188,287
12,677	12,677
51,759	51,759
22,249	22,249
17,871	19,087
<u>324,905</u>	<u>2,004,270</u>
29,644	
2,293	
13,241	
749	
5,481	
126	
4,193	
58,333	606,285
<u>114,060</u>	<u>606,285</u>
187,690	202,985
<u>1,825,478</u>	<u>2,218,489</u>
<u>\$2,013,168</u>	<u>\$2,421,474</u>

Combined Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes in Fund Balances Higher Education Fund Type

**For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)**

	Current Funds		Total
	Unrestricted	Restricted	
REVENUES:			
Tuition and fees	\$211,003		\$ 211,003
Federal appropriations	31	\$ 15,236	15,267
Endowment income	697	1,257	1,954
Federal grants and contracts	3,290	160,104	163,394
State and local grants and contracts	3,684	52,072	55,756
Private gifts, grants and contracts	9,010	47,668	56,678
Investment earnings	1,709	7	1,716
Sales and services of educational facilities	45,042	808	45,850
Sales and services of auxiliary enterprises and hospitals	547,419	315	547,734
Insurance	51,994		51,994
Other sources	22,410	8,397	30,807
Total Current Revenues	896,289	285,864	1,182,153
EXPENDITURES AND MANDATORY TRANSFERS:			
Educational and General:			
Instruction	378,304	38,480	416,784
Research	45,080	64,796	109,876
Public service	38,187	35,866	74,053
Academic support	68,850	11,943	80,793
Student services	39,519	7,835	47,354
Institutional support	115,267	1,388	116,655
Operation and maintenance of plant	76,417	1,167	77,584
Scholarships and awards	43,256	117,425	160,681
Insurance activity	57,896		57,896
Other expenditures	2,693	6,964	9,657
Total Educational and General Expenditures	865,469	285,864	1,151,333
Mandatory Transfers for:			
Principal and interest	19,328	503	19,831
Matching requirements	455	(164)	291
Renewals and replacements	1,575		1,575
Other mandatory transfers	13,197	(483)	12,714
Total Educational	900,024	285,720	1,185,744
Auxiliary Enterprises and Hospitals:			
Expenditures	520,150	461	520,611
Mandatory transfers for:			
Principal and interest	9,510	264	9,774
Renewals and replacements	718		718
Total Auxiliary Enterprises and Hospitals	530,378	725	531,103
Operating Transfers In - Primary Government	537,639	9,778	547,417
Total Expenditures and Mandatory Transfers	892,763	276,667	1,169,430
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):			
Educational and General Non-Mandatory Transfers for:			
Unexpended plant	(799)		(799)
Renewals and replacements	(5,348)	(114)	(5,462)
Retirement of indebtedness	(126)		(126)
Other non-mandatory transfers	(5,310)	887	(4,423)
Excess of Restricted Receipts Over Transfers to Revenues		279	279
NET INCREASE (DECREASE) IN FUND BALANCES	\$ (8,057)	\$ 10,249	\$ 2,192

The accompanying notes are an integral part of the financial statements.

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 1999

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying general purpose financial statements of the State of Arkansas (the "State") conform with generally accepted accounting principles ("GAAP") for governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for governmental accounting and financial reporting. In addition, GAAP requires that the State's proprietary activities apply GAAP as it is applied by similar business activities in the private sector. The financial statements of the State's colleges and universities have been prepared in accordance with the accounting guidance as outlined in the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, the *College and University Business Administration*, published by the National Association of College and University Business Officers ("NACUBO"), and pronouncements issued by the GASB.

The general purpose financial statements have been prepared primarily from accounts maintained by the Department of Finance and Administration and the State Treasurer. Additional data has been derived from the audited financial statements of certain entities and from reports and data prescribed by the Department of Finance and Administration, Office of Accounting. These prescribed reports and data were prepared by various State agencies and departments based on independent or subsidiary accounting records maintained by them.

The Reporting Entity - For financial reporting purposes, the State of Arkansas' primary government includes all funds, account groups, departments and agencies, boards, commissions, and authorities that make up the State's legal entity. The State's reporting entity also is comprised of its component units; legally separate organizations for which the State's elected officials are financially accountable.

Individual Component Unit Disclosures - GAAP defines component units as those entities which are legally separate organizations for which the State's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading and incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the State's balances and transactions; or discrete presentation of the component units' financial data columns separate from the State's balances and transactions.

Blended Component Units - The State has no blended component units.

Discretely Presented Component Units - Discrete component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Arkansas Student Loan Authority ("ASLA") and Arkansas Development Finance Authority ("ADFA") meet the criteria of discretely presented component units because they are legally separate, and the State is financially accountable. The Component Units column of the combined financial statements include the financial data of the following entities:

Arkansas Student Loan Authority - ASLA was established pursuant to Act 873 of 1977, as amended. The purpose of ASLA is to make loans directly to students and purchase qualified student loans from Arkansas lending institutions or loans made by non-Arkansas institutions to Arkansas residents. The students attend qualified Arkansas educational institutions or are Arkansas residents who attend qualified institutions located outside the State of Arkansas.

Arkansas Development Finance Authority - ADFA provides financing through the issuance of taxable and tax-exempt bonds for housing, industry, local governments, education, agricultural enterprises, health care, infrastructure projects, jails and prisons. ADFA also offers direct loans for housing, small minority businesses, agriculture and exporting.

Component Unit Financial Statements - Complete financial statements of each of the discretely presented component units can be obtained by contacting their respective administrative office.

Arkansas Student Loan Authority
101 East Capitol, Suite 401
Little Rock, AR 72201

Arkansas Development Finance Authority
100 Main Street, Suite 200; P.O. Box 8023
Little Rock, AR 72203

Fund Structure - The financial activities of the State are accounted for in individual funds and account groups. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. These are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Individual funds of the primary government are classified in four fund categories: governmental, proprietary, fiduciary and higher education.

Account groups are accounting entities used to account for the State's general fixed assets and long-term debt. These account groups are not funds because they do not reflect available financial resources and related liabilities.

The following describes the fund categories and account groups used in the accompanying general purpose financial statements:

Governmental Funds

General Fund - The general fund is the general operating fund of the State. It is used to account for all financial resources obtained and spent for those services normally provided by the State which are not accounted for in other funds.

Proprietary Fund

Enterprise Fund - This fund is used to account for operations of those state agencies providing goods or services to the general public on a user-charge basis or where the State has decided that periodic determination of revenues earned, expenses incurred and/or income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The enterprise funds consist of the Workers' Compensation Commission ("WCC") which is responsible for providing a prompt and equitable system of compensation for injury or illness sustained during the course of employment, the Construction Assistance Revolving Loan Fund, which is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities, the Other Revolving Loan Funds, which are responsible for the planning, design, acquisition, construction, expansion, equipping, and/or rehabilitation of water systems and for the financing of capitalizable educational and general projects for community and technical colleges.

Fiduciary Funds

Trust and Agency Funds - These funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations or other funds. These funds include expendable trust,

pension trust and agency funds. Pension trust funds are accounted for on the accrual basis. Expendable trust funds are accounted for in the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Higher Education Fund

The financial statements of Higher Education have been prepared with the accounting guidance and reporting practices applicable to colleges and universities, as outlined in the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, the *College and University Business Administration*, published by the NACUBO and pronouncements issued by the GASB.

Current Funds - These funds are used to account for resources that will be expended in the near term for operating purposes of the institutions. These include (1) unrestricted funds over which the governing boards retain full control in achieving the institutions' purposes, and (2) restricted funds which may be utilized only in accordance with externally restricted purposes.

Fiduciary Funds - These funds are used to account for assets held by loan, endowment, life income and agency funds in which the universities act in a fiduciary capacity.

Plant Funds - These funds are used to account for institutional property acquisition, renewal, replacement, debt service and investment.

Agency Funds - These funds are used to account for amounts held in custody for students, university-related organizations and others.

The Combined Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes in Fund Balances is a statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

Account Groups

General Fixed Assets - This account group is used to account for all fixed assets (excluding infrastructure) that are not accounted for in the proprietary fund, pension trust funds, higher education fund or component units.

General Long-Term Debt - This account group includes the unmatured portion of the long-term general obligation debt which is to be financed from governmental funds. Also included in this group are long-term liabilities resulting from capital lease obligations, notes payable, claims and judgments, compensated absences and unfunded pension costs.

Discretely Presented Component Units

The State's discretely presented component units conduct business-like activities that provide goods/services to the public, other governmental units and the State, and are financed primarily through user charges. The measurement focus of these entities is upon determination of net income, financial position and cash flows.

Basis of Accounting - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus as described below. The revenue, expenditure and expense recognition policies have been applied in the determination of the related assets and liabilities at June 30, 1999.

Governmental and expendable trust funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. The State's revenue recognition policies conform to the provisions of GASB Statement No. 22, *Accounting for Tax-Payer Assessed Tax Revenues in Governmental Funds*. Significant revenues susceptible to accrual include income, sales, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from federal grants are recognized when the related expenditures have been incurred. Revenues from other sources are recognized when received. Expenditures are recorded at the time fund liabilities are incurred except (1) inventories generally are recorded as expenditures when purchased, and (2) principal and interest on long-term debt are recorded when paid.

The accrual basis of accounting with a flow of economic resources measurement focus is utilized in the proprietary fund, pension trust funds, higher education fund and discretely presented component units. Under this accounting basis, revenues are recognized when earned and expenses are recognized when incurred. For the pension trust funds, employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible, and accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in the Arkansas Code.

The State and the discretely presented component units have adopted the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that Use Proprietary Fund Accounting*. As permitted by the statement, the State has elected not to adopt Financial Accounting Standards Board ("FASB") Statements issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations.

Consistent with current GAAP for public colleges and universities, depreciation on higher education physical or plant assets is not recorded, and revenue and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted.

Agency funds are custodial in nature (assets equal liabilities) and are accounted for on a modified accrual basis of accounting.

Budgetary Basis of Accounting - The State's budget is adopted in accordance with a statutory cash basis of accounting which is not in accordance with GAAP. Revenues are recognized when cash is received and deposited in the State Treasury or reported to the Department of Finance and Administration. Expenditures are recorded when cash is disbursed. If goods or services are not received before year end, all encumbrances lapse, except those appropriations for multi-year projects.

Cash and Cash Equivalents - Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, all certificates of deposit and all short-term instruments with maturities at purchase of ninety days or less. Short-term investments are stated at fair value, except for agency funds not held for investment purposes which are reported at amortized cost.

Investments - Investments include U.S. Government and government agency obligations, repurchase agreements, state and local government obligations and corporate debt and equity obligations. Investments are reported at fair value, except for agency fund investments not held for investment purposes, which are reported at amortized cost. The General and Higher Education Fund Investments are stated at fair value as determined by independent quoted market sources.

Investments in the pension trust funds are reported at fair values as determined by the custodial agents. The agents determination of fair value includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates.

Realized and unrealized gains and losses on investments are included in investment earnings on the respective operating statement.

The University of Arkansas System (the "System") has established an investment pool (the "Pool"). The investments in the Pool are governed by the System Investment Policy, which was established by the University of Arkansas Board of Trustees. The Pool is not SEC-registered. Participation in the Pool is voluntary. At June 30, 1999, four universities and two foundations participated in the Pool. These foundations hold 61% or \$274 million of the investments in the Pool, which are reported separately along with the related liability in an agency fund. Participation in or withdrawal from the Pool is based on the daily market value of the units within the Pool. Income from the Pool is allocated to the participants in the Pool based on the market value per unit from the previous day. The Pool issues a publicly available financial report, which may be obtained by writing or calling the University of Arkansas System, 2404 North University Avenue, Little Rock, Arkansas, 72207-3608, (501) 686-2500.

Receivables - Receivables in the State's governmental fund consist primarily of taxes, loans, interest and federal grants. The remaining governmental fund revenues are not considered susceptible to accrual prior to receipt. Receivables in all other funds have arisen in the ordinary course of business.

Interfund Transactions - The State has three types of interfund transactions:

- Operating appropriations. These are accounted for as operating transfers in the funds involved.
- Residual equity transfers. These are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from fund equity.
- Quasi-external transactions. Charges or collections for services rendered by one fund to another are recorded as revenues in the receiving fund and expenditures/expenses of the disbursing fund.

Inventories - Inventories of materials and supplies are valued at cost, principally using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when purchased. Inventory balances are recorded as a reserve of fund balance indicating that they do not constitute "available spendable resources."

Fixed Assets - Purchases of general fixed assets of the governmental funds are recorded as expenditures of those funds, with the related assets recorded in the General Fixed Asset Account Group. General fixed assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value or estimated fair market value at the time of the donation. The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. Public domain general fixed assets ("infrastructure"), consisting of roads, bridges, streets, sidewalks, drainage systems and lighting systems, are not capitalized as these assets are immovable and of value only to the government. Assets in the General Fixed Asset Account Group are not depreciated.

Fixed assets held in the enterprise funds and discretely presented component units have been valued in the same manner as the General Fixed Asset Account Group. The fixed assets of these funds are depreciated on a straight-line basis over their estimated useful lives. Buildings are depreciated over various lives, ranging from 20 to 50 years, machinery and equipment 3 to 35 years and vehicles 5 years.

Contributed Capital - The Revolving Loan Funds record contributed capital for federal and state grants used to fund the programs. As grants are received, the State recognizes such grants as direct contributions to equity.

Compensated Absences - The amount of compensated absences to be paid from future resources is reported in the General Long-Term Debt Account Group. Vested or accumulated vacation leave of the proprietary, higher education fund and component units is recorded as an expense and an accrued liability of these funds as the benefits accrue to employees.

Equity - Reserves represent those portions of equity that are not available for appropriation or legally segregated for a specific future use.

Total Columns (Memorandum Only) - Total columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in accordance with generally accepted accounting principles, nor is such data comparable to a consolidation.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Future Adoption of Accounting Pronouncements - The GASB has issued Statement of Governmental Accounting Standards No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which the State has not yet adopted. The requirements of this Statement are effective in three phases based on the State's total annual revenues in the first fiscal year ending after June 30, 1999. The State will be required to implement GASB 34 effective for the fiscal year ending June 30, 2002.

NOTE 2: BUDGETARY BASIS REPORTING - BUDGETARY PROCESS

State finance law requires that a balanced budget be approved by the Governor and the General Assembly. The Governor presents an annual budget to the General Assembly which includes an estimate of revenues, expenditures and other financing sources and uses anticipated during the coming biennial period. The General Assembly, which has full authority to amend the budget, adopts a line item budget by appropriating monies in biennial appropriation acts. The State does not adopt a revenue budget but does monitor the revenues and forecast of revenues and makes appropriate revisions to the expenditure budget based on such forecasts. These forecasts are adjusted quarterly to reflect actual receipts of revenues.

Before signing the appropriation act, the Governor may veto any specific item, subject to legislative override. Further changes to the budget established in the biennial appropriation may be made via supplemental appropriation acts or other subsequent legislative acts. These also must be approved by the General Assembly and signed by the Governor and are subject to the line item veto.

The General Assembly also must enact legislation pursuant to the Revenue Stabilization Law (the "Stabilization Law") to provide an allotment process of funding appropriations in order to comply with the state law prohibiting deficit spending. The Governor may restrict spending to a level below appropriations amounts. The State uses specific "internal sub funds" (i.e. general and special revenue allotment accounts) for receipt and distribution of revenues. Pursuant to the Stabilization Law, all receipts are deposited in the General Revenue Allotment Account. From the General Revenue Allotment Account, 3% of all revenues are

distributed to the Constitutional Officers Fund and the Central Services Fund to provide support for the State's elected constitutional offices (legislators, executive department and judges), their staffs and the Department of Finance and Administration ("DF&A"). The balance is then distributed to separate funds proportionately as established by the Stabilization Law. Special revenues are deposited into the Special Revenue Allotment Account from which 3% of revenues collected by DF&A and 1 1/2% of all special revenues collected by other agencies are first distributed to provide support for the State's elected officials, their staffs and DF&A. The balance is then distributed to the funds for which the special revenues were collected as provided by law. Special revenues, which are primarily user taxes, are generally earmarked for the program or agency providing the related service.

General revenues are transferred into funds established and maintained by the Treasurer for major programs and agencies of the State in accordance with funding priorities established by the General Assembly.

Pursuant to the Stabilization Law, the General Assembly establishes three levels of priority for general revenue spending levels, "A," "B" and "C". Successive levels of appropriations are funded only in the event sufficient revenues have been generated to fully fund any prior level. Accordingly, appropriations made to programs and agencies are only maximum authorizations to spend. Actual expenditures are limited to the lesser of monies flowing into programs or agencies' funds maintained by the Treasurer or the maximum appropriation by the General Assembly.

Each of these legally adopted internal sub-funds are accounted for on the cash basis. All prior fiscal year unpaid bills or claims that did not have sufficient funds and appropriation at the end of the fiscal year may be submitted by the agency to the Claims Commission. Upon approval of the claims, funds are appropriated in the following biennium to allow for payment, unless the claims are approved during a special session of the legislature.

The majority of the State's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the General Assembly has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, the General Assembly may direct that certain revenues be retained and made available for spending within a specific appropriation account.

The rate of spending of appropriations is controlled by DF&A. DF&A utilizes quarterly allotments which restrict spending to a certain percentage of the annual appropriation. The percentage is established to coincide with the expected actual rate of revenue collections, thereby ensuring adequate cash flow throughout the year.

DF&A has the responsibility to ensure that budgetary spending control is maintained on an individual appropriation line item basis. Budgetary control is maintained through the Arkansas Accounting Federal Grants Management System ("AFGM"). AFGM ensures that expenditures are not processed if they exceed the appropriation line item's total available spending authorization, which is considered its budget. Generally, expenditures may not exceed the level of spending authorized. However, Arkansas law authorizes DF&A to transfer specific holding appropriations when other sources of funding are received, such as a federal grant.

An AFGM report, internally identified as AFGM R5901, is used by DF&A to monitor spending against budget. This report provides information at the individual appropriation line item level, which is the legal level of budgetary control, and is available from DF&A. For financial reporting, the State groups these appropriation account categories by function to conform to its organizational structure.

The State uses the General Fund to summarize the internal sub-funds, which represent accounts or activities that have been legally appropriated.

The following is a reconciliation of the statutory cash basis excess of revenues and other sources over expenditures and other uses of the General Fund to the GAAP basis excess of revenues and other sources over expenditures and other uses presented in the financial statements (expressed in thousands):

Excess of revenues and other sources over expenditures and other uses (statutory basis)	\$105,709
Non-appropriated excess of expenditures and other uses over revenues and other sources	5,031
Basis of accounting differences	<u>(69,885)</u>
Excess of revenues and other sources over expenditures and other uses (GAAP basis)	<u>\$ 40,855</u>

Supplemental appropriations of \$119 million were required during the fiscal year ended June 30, 1999.

NOTE 3: DEPOSITS AND INVESTMENTS

Cash

Arkansas Code requires that all cash fund agencies, other than the institutions of Higher Education, abide by the cash management and investments standards and procedures promulgated by the State Board of Finance. The stated primary goal of State cash management is the protection of principal, while maximizing investment earnings and minimizing non-interest bearing balances.

Cash and cash equivalents are defined as short-term highly liquid investments with original maturities of ninety days or less. The reported amount of total deposits at June 30, 1999, is as follows (expressed in thousands):

	<u>Primary Government</u>	<u>Component Units</u>
Reported amount of deposits	\$ 900,747	\$ 6,294
Bank balance of deposits	1,128,629	7,604
Amount insured or collateralized with securities held by the State or its agent in the State's name	973,593	4,634
Amount collateralized with securities held by the pledging financial institution's trust department or agent in the State's name	92,297	
Uncollateralized, or collateralized with securities held by the pledging financial institution, or its trust department or agent but not in the State's name	62,739	2,970

The following schedule reconciles the reported amount of deposits as disclosed above to the combined balance sheet (expressed in thousands):

	<u>Primary Government</u>	<u>Component Units</u>
Reported amount of deposits	\$ 900,747	\$ 6,294
Cash on hand	1,453	
Undeposited receipts	26,445	
Cash held at U.S. Treasury	241,764	
Investments disclosed as cash equivalents for GASB 3	(3,000)	(1,000)
Cash equivalents disclosed as investments for GASB 3	<u>1,576,317</u>	<u>150,644</u>
Cash and cash equivalents as reported on the combined balance sheet	<u>\$2,743,726</u>	<u>\$ 155,938</u>

Investments

State funds are invested by the Treasurer, as well as various state agencies, including the Retirement Systems, institutions of Higher Education, and Discretely Presented Component Units. Permissible investments include those guaranteed by the United States of America, its agencies, and instrumentalities (U.S. Government obligations); repurchase agreements; corporate debt and equity obligations; and state and local government securities.

Purchased and donated investments are generally stated at fair value, while investments held in an agency capacity and not for investment purposes are reported at amortized cost. In accordance with Statement No. 3 of the GASB, the State's investments are categorized to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered, or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the State's name.

Primary Government -

Investments for the Primary Government at June 30, 1999, by security type and level of risk, are as follows (expressed in thousands):

Security Type	Category			Reported Amount	Fair Value
	1	2	3		
Categorized:					
U.S. Government securities	\$ 1,748,878	\$ 1,220	\$209,172	\$ 1,959,270	\$ 1,969,740
Corporate securities	6,870,949		252,184	7,123,133	7,125,941
International securities	1,052,412		22,229	1,074,641	1,074,641
Repurchase agreements	125,987		112,180	238,167	238,167
Bank obligations			234,243	234,243	234,243
State and local government securities	38,267			38,267	39,665
Other categorized	<u>109,116</u>	<u>253</u>	<u>836</u>	<u>110,205</u>	<u>110,205</u>
Total Investments Categorized by Security Type	<u>\$ 9,945,609</u>	<u>\$ 1,473</u>	<u>\$830,844</u>	<u>10,777,926</u>	<u>10,792,602</u>
Uncategorized:					
Mutual funds				1,361,232	1,361,232
Securities lent for cash collateral				1,375,452	1,375,452
Commingled funds				879,758	879,758
Mortgage obligations				135,468	135,468
Real estate				44,358	44,358
Limited partnership investment				536,122	536,122
Private placements				16,393	16,393
Investment pool				875,549	875,549
Guaranteed investment contract				31,304	31,304
Other investments				<u>3,364</u>	<u>3,364</u>
Total				<u>\$ 16,036,926</u>	<u>\$ 16,051,602</u>

The following schedule reconciles the carrying amount of investments as disclosed above to the combined balance sheet (expressed in thousands):

Reported amount of investments	\$ 16,036,926
Investments disclosed as cash equivalents for GASB 3	(1,576,317)
Cash equivalents disclosed as investments for GASB 3	<u>3,000</u>
Investments as reported on the combined balance sheet	<u>\$ 14,463,609</u>

Component Units -

Investments for the Discretely Presented Component Units at June 30, 1999, by security type and level of risk, are as follows (expressed in thousands):

Security Type	Category			Reported Amount	Fair Value
	1	2	3		
Categorized:					
U.S. Government agency obligations	\$632,697		\$5,760	\$ 638,457	\$ 638,457
Commercial paper	252			252	252
Repurchase agreements	9,056			9,056	9,056
Total Investments					
Categorized by Security Type	<u>\$642,005</u>		<u>\$5,760</u>	<u>647,765</u>	<u>64,765</u>
Uncategorized:					
Investment agreements				272,456	272,456
Mutual funds				150,644	150,644
Total				<u>\$1,070,865</u>	<u>\$1,070,865</u>

The following schedule reconciles the carrying amount of investments as disclosed above to the combined balance sheet (expressed in thousands):

Reported amount of investments	\$ 1,070,865
Investments disclosed as cash equivalents for GASB 3	1,000
Cash equivalents disclosed as investments for GASB 3	(150,644)
Investments as reported on the combined balance sheet	<u>\$ 921,221</u>

NOTE 4: DERIVATIVES**Primary Government -****Forward Currency Contracts**

Arkansas Public Employees Retirement System ("APERS") and Arkansas Teacher Retirement System ("Teacher") enter into forward-exchange contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward exchange rates, and the changes in the value of open contracts are recognized as unrealized appreciation/depreciation in the statement of changes in plan net assets. The realized gain or loss on closed forward currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included in net realized gain or loss on forward currency contracts in the statement of changes in plan net assets. At June 30, 1999, the retirement systems referred to above were party to outstanding forward exchange currency contracts to purchase foreign currencies with contract amounts of \$93.9 million, collectively. Market values of these outstanding contracts were \$96.4 million resulting in an unrealized net gain of approximately \$2.5 million. The retirement systems also had outstanding forward currency contracts to sell foreign currency with contract amounts of \$148.4 million at June 30, 1999. Market values of these contracts were \$150.2 million resulting in an unrealized net loss of approximately \$1.8 million.

Mortgage-Backed Securities

APERS, Teacher, and Arkansas State Highway Employees Retirement System ("ASHERS"), invest in various asset-backed securities, mortgage-backed securities, and structured corporate debt. These securities are reported at fair value in the balance sheet. They are also included in the totals of government securities and corporate securities, depending on the issuer, in the disclosure of custodial credit risk (see Note 3 on Deposits and Investments). The retirement systems referred to above invest in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets.

Component Units -

Mortgage-Backed Securities

ADFA invests in various asset and mortgage-backed securities. These securities are reported at fair value in the combined balance sheet. They are also included in the totals of U.S. Government and Agency securities in the disclosure of custodial credit risk. ADFA invests in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets.

Interest Rate Swaps

ASLA has entered into an interest rate swap agreement to effectively convert \$32.7 million of fixed rate debt to variable rate debt with a weighted average interest rate based on the PSA Municipal Swap Index. The effective interest rate of the debt was 4.4% for the period ended June 30, 1999. The differential to be paid or received on the interest rate swap is accrued as interest rates change and is charged or credited to interest expense over the life of the agreement. ASLA's credit risk related to this interest rate swap agreement is generally the differential, if any, payable by the counterparty which accumulated prior to the June 1, and December 1, settlement dates each year. The ASLA is exposed to interest rate risk under the swap agreement and will incur interest expense above the related bond interest rates if the weighted PSA Municipal Swap Index rate exceeds 4.84%. The related PSA Municipal Swap Index rate was 3.31% at June 30, 1999. The interest rate swap agreement is set to expire June 1, 2003.

NOTE 5: SECURITIES LENDING ARRANGEMENTS

State Police, Teacher and APERS participate in security lending programs, as authorized by Arkansas Code Annotated Title 24, Chapter 3, Subchapter 4, Section 12, whereby investment securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash and cash equivalents or other securities guaranteed by the U.S. Government or an agency thereof equal to at least 100% of the full market value of the security loaned. At all times during the term of each loan, the total value of the collateral is not to be less than 95% of the full market value of all securities on loan. The program is administered by custodial agent banks. The Code does not specify the types of securities that may be loaned. The type of securities on loan at June 30, 1999, includes domestic and international equities, domestic and international corporate fixed income securities, U.S. Treasury securities, government agency securities and non U.S. sovereigns. Securities on loan at fiscal year end for cash collateral are uncategorized in the preceding summary of deposits and investments (Note 3); securities on loan for non-cash collateral are classified by category of custodial credit risk based on the categorization appropriate for the collateral. With the exception of cash collateral, the pensions do not have the ability to pledge or sell the collateral unless there is borrower default. The pensions invest cash collateral received; accordingly, investments made with cash collateral received appear as assets on the Statement of Plan Net Assets and Combined Balance Sheet. As

the pensions must return the cash collateral to the borrower upon expiration of the loan, a corresponding liability is recorded in accrued and other liabilities. At June 30, 1999, cash collateral and investments made with cash collateral was approximately \$1.41 billion. These securities have also been classified in the preceding summary of deposits and investments (see Note 3). The weighted average maturity of collateral investments generally does not match the maturity of the loans. The custodial agents provide the pensions with an indemnification if an insolvency causes the borrower to fail to return the securities lent. However, in the history of the pensions' participation in such programs, no losses resulting from default have occurred. Total securities on loan at June 30, 1999, was \$1.39 billion and total collateral received for these securities on loan was \$1.43 billion.

NOTE 6: RESTATEMENT OF PRIOR YEAR FUND EQUITY

Fund equity and other credits at June 30, 1998, has been restated as follows (expressed in thousands):

	Proprietary	Component Units
Fund equity:		
Balance as previously reported	\$102,490	\$152,072
Restatement - correction of prior years amounts	11,627	(9,796)
Balance as of June 30, 1998, as adjusted	<u>\$114,117</u>	<u>\$142,276</u>
	Retained Earnings	Contributed Capital
Proprietary detail:		Total
Balance as previously reported	\$ (12,014)	\$102,490
Restatement - correction of prior years amounts	5,696	11,627
Balance as of June 30, 1998, as adjusted	<u>\$ (6,318)</u>	<u>\$114,117</u>

Subsequent to the issuance of the State's 1998 general purpose financial statements, management of the State has restated fund equity of the proprietary and component unit funds by approximately \$11.6 million to reflect the relationship of the Other Revolving Loan Funds in accordance with the requirements of GASB Statement No. 14, *The Financial Reporting Entity*.

NOTE 7: RECEIVABLES

Receivables at June 30, 1999, consisted of the following (expressed in thousands):

Primary Government -

	Accounts	Taxes	Employer	Employee	Notes and Deposits	Medicaid	Loans	Investment Related	Allowance for Uncollectibles	Net Receivable by Fund Type
General Fund	\$ 97,644	\$ 280,949			\$ 37,595	\$ 136,510	\$ 142,389	\$ 12,705	\$ (66,070)	\$ 641,722
Enterprise Funds	10,004						171,175	2,539		183,718
Trust and Agency Funds	68,554		\$ 9,062	\$ 5,369				279,660	(20,039)	342,606
Higher Education Fund	620,018				47,897			2,115	(480,500)	189,530
Total	<u>\$ 796,220</u>	<u>\$ 280,949</u>	<u>\$ 9,062</u>	<u>\$ 5,369</u>	<u>\$ 85,492</u>	<u>\$ 136,510</u>	<u>\$ 313,564</u>	<u>\$ 297,019</u>	<u>\$ (566,609)</u>	<u>\$ 1,357,576</u>

Component Units -

	Accounts	Loans	Investment Related	Allowance for Uncollectibles	Net Receivable by Component Unit
ASLA		\$ 197,167	\$ 3,230	\$ (1,725)	\$ 198,672
ADFA	\$ 3,703	412,145	8,749	(2,942)	421,655
Total	<u>\$ 3,703</u>	<u>\$ 609,312</u>	<u>\$ 11,979</u>	<u>\$ (4,667)</u>	<u>\$ 620,327</u>

NOTE 8: INTERGOVERNMENTAL ACTIVITY (expressed in thousands)**Interfund Receivables and Payables**

	Due from	Due to
General Fund	\$ 949	\$ 4,251
Trust and Agency Funds - Expendable Trust	229	93
Higher Education Fund - Current Funds	4,022	856
Total	<u>\$ 5,200</u>	<u>\$ 5,200</u>

Intrafund Receivables and Payables

	Due from	Due to
Higher Education Fund:		
Current funds	\$ 8,196	\$ 11,245
Loan	5	
Endowment and similar		1,180
Plant	5,627	1,452
Agency	51	2
Total	<u>\$ 13,879</u>	<u>\$ 13,879</u>

Advances to/from Other Funds - Primary Government

	Advances to	Advances from
General Fund	\$ 16,430	\$ 22,923
Trust and Agency Funds - Pension Trust - Teacher	22,923	
Higher Education Fund - Plant Fund		16,430
Total	<u>\$ 39,353</u>	<u>\$ 39,353</u>

Operating Transfers

	Operating Transfers In	Operating Transfers Out
General Fund	\$ 162	\$606,285
Enterprise Fund - Workers' Compensation Commission		162
Higher Education Fund:		
Current Funds	547,417	
Loan Fund	535	
Plant Fund	58,333	
Total	<u>\$606,447</u>	<u>\$606,447</u>

NOTE 9: FIXED ASSETS***Primary Government -***

Changes in general fixed assets were as follows (expressed in thousands):

	Balance June 30, 1998	Additions	Deletions	Balance June 30, 1999
Land	\$ 167,066	\$ 2,920	\$ 467	\$ 169,519
Buildings	606,878	18,039	534	624,383
Equipment	207,412	22,805	9,254	220,963
Construction in progress	46,545	38,622	14,542	70,625
Total	<u>\$1,027,901</u>	<u>\$82,386</u>	<u>\$24,797</u>	<u>\$1,085,490</u>

At June 30, 1999, fixed assets by category in other funds consisted of the following amounts:

	Enterprise Funds	Pension Trust Funds	Higher Education Fund
Land	\$ 580		\$ 126,873
Buildings	1,634		1,256,677
Equipment	1,429	\$ 1,968	434,645
Construction in progress			159,697
Other	158		142,744
Subtotal	3,801		2,120,636
Less: Accumulated Depreciation	(1,309)	(1,018)	-
Total	<u>\$ 2,492</u>	<u>\$ 950</u>	<u>\$2,120,636</u>

Component Units -

At June 30, 1999, fixed assets reported in the State's discretely presented component units consisted of the following amounts:

Equipment	\$ 1,027
Other	629
Subtotal	1,656
Less: Accumulated Depreciation	(1,161)
Total	<u>\$ 495</u>

NOTE 10: SUMMARY OF LONG-TERM DEBT

The State records its long-term liabilities in the General Long-Term Debt Account Group. These liabilities include general obligation bonds, special obligations bonds, notes payable to component units, other debt instruments, capital leases, capital leases with component units, claims and judgments payable in future years, accrued compensated absences, and net pension obligation.

The following schedule shows the changes in the General Long-Term Debt Account Group for the year ended June 30, 1999 (expressed in thousands):

	<u>Balance June 30, 1998</u>	<u>Debt Issued</u>	<u>Debt Paid</u>	<u>Other Changes</u>	<u>Balance June 30, 1999</u>
Bonds:					
General obligation	\$400,402		\$ 23,166	\$ 11,100	\$ 388,336
Special obligation	5,795		1,865		3,930
Other debt instruments	7,747		805	200	7,142
Notes payable to component unit	51,995	\$2,115	1,855	(25,076)	27,179
Capital leases	27,730	326	1,764		26,292
Capital leases with component unit	80,737		9,630		71,107
Claims and judgments	142,228		25,000	(25,359)	91,869
Compensated absences	61,866			(60)	61,806
Net pension obligation	5,466			(257)	5,209
Total	<u>\$783,966</u>	<u>\$2,441</u>	<u>\$ 64,085</u>	<u>\$(39,452)</u>	<u>\$ 682,870</u>

Primary Government -

Governmental Fund Type Operations

General Obligation Bonds - The Constitution of the State does not limit the amount of general obligation bonds which may be issued by the State; however, no such bonds may be issued unless approved by the voters of the State at a general election or a special election held for that purpose.

General obligation bonds outstanding at June 30, 1999, including accrued accreted interest of approximately \$46.1 million on capital appreciation bonds, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rates %	Balance
Soil and Water Conservation Bonds:			
1992A Series Water Resources G.O. Bonds	2021	5.40 - 6.38	\$ 17,205
1995A Series Water Resources G.O. Bonds	2024	4.60 - 5.60	4,945
1995B Series Water Resources G.O. Bonds	2025	4.20 - 5.75	7,050
1996A Series Water Resources G.O. Bonds	2017	4.50 - 5.38	11,455
1996B Series Water Resources G.O. Bonds	2025	4.70 - 5.85	7,295
1997A Series Water Resources G.O. Bonds	2026	4.50 - 5.70	14,765
1997B Series Water Resources G.O. Bonds	2026	4.00 - 5.25	14,450
1998 Series Water Resources G.O. Bonds	2027	4.50 - 4.88	9,955
1992B Series Waste Disposal G.O. Bonds	2020	5.00 - 6.25	9,140
1994A Series Waste Disposal G.O. Bonds	2008	4.65 - 5.50	8,320
1995A Series Waste Disposal G.O. Bonds	2025	4.10 - 5.50	2,375
1996A Series Waste Disposal G.O. Bonds	2025	5.10 - 5.63	4,865
1997A Series Waste Disposal G.O. Bonds	2026	4.00 - 5.25	4,915
1998A Series Waste Disposal G.O. Bonds	2027	4.50 - 5.05	10,000
College Savings Bonds:			
1991A Series, G.O. Bonds	2011	6.30 - 7.00	16,620
1991B Series, G.O. Bonds	2012	6.35 - 7.00	24,604
1991C Series, G.O. Bonds	2013	5.90 - 6.90	15,379
1993 Series, G.O. Bonds	2014	5.00 - 5.95	18,260
1995 Series, G.O. Bonds	2015	4.20 - 5.90	21,420
1996A Series, G.O. Bonds	2016	4.00 - 5.65	23,243
1996B Series, G.O. Bonds	2016	4.55 - 6.30	16,779
1996C Series, G.O. Bonds	2016	4.30 - 6.00	27,486
1997A Series, G.O. Bonds	2017	4.60 - 6.05	29,107
1997B Series, G.O. Bonds	2017	4.10 - 5.60	28,222
1998A Series, G.O. Bonds	2017	4.00 - 5.35	40,481
Total			<u>\$388,336</u>

Future amounts required to pay principal and interest on general obligation bonds at June 30, 1999, were as follows (expressed in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2000	\$ 21,108	\$ 12,292	\$ 33,400
2001	21,053	12,363	33,416
2002	18,496	14,913	33,409
2003	17,794	15,611	33,405
2004	17,604	16,638	34,242
Thereafter	<u>246,188</u>	<u>229,875</u>	<u>476,063</u>
Total	<u>\$ 342,243</u>	<u>\$ 301,692</u>	<u>\$ 643,935</u>

Details of general obligation bonds outstanding are as follows:

State Water Resources Development General Obligation Bonds - Act 496 of 1981, as amended, authorized the Soil and Water Conservation Commission to issue State Water Resources Development General Obligation Bonds. All bonds issued under the authority of this Act are general obligations of the State of Arkansas and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The Act limited the total principal amount to \$100 million with no more than \$15 million being issued during any fiscal biennium unless the General Assembly by law authorizes a greater amount to be issued. The bonds were issued to provide financing for the development of water resources projects in the State of Arkansas approved and implemented by the Arkansas Soil and Water Conservation Commission with the exception of the portion of the Series 1992A and the Series 1996A bonds. A portion of the Series 1992A bonds were issued to refund the outstanding principal amount of the Water Series 1985 bonds. The Series 1996A bonds were issued to defease the outstanding principal of the Water Series 1989A bonds.

State Waste Disposal and Pollution Abatement Facilities General Obligation Bonds - Act 686 of 1987, as amended, authorized the State to issue Waste Disposal and Pollution Abatement Facilities General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The Act limited the total principal amount to \$250 million with no more than \$50 million being issued during any fiscal biennium unless the General Assembly by law authorizes a greater amount to be issued. The bonds were issued to provide financing for the development of waste disposal and pollution abatement facilities projects in the State of Arkansas with the exception of the Series 1992B and 1994A bonds which were issued to refund the outstanding principal amount of Waste Series 1990A and 1992A bonds, respectively. The bonds are payable from the general revenues of the State, any repayments on project loans and investment earnings on the proceeds of the bonds.

College Savings General Obligation Bonds - Act 683 of 1989, as amended, authorized the State to issue College Savings General Obligation Bonds. All bonds issued under the authority of this act are direct general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The Act provides that no more than \$100 million may be issued in any fiscal biennium unless the General Assembly of the State shall, by law, authorize a greater principal amount thereof to be issued. The College Series bonds were issued to provide funds to finance capital improvements projects at State institutions of higher education. The bonds are payable from the net general revenues of the State and investment earnings on the proceeds of the bonds.

Special Obligation Bonds - Special obligation bonds are issued by various state departments, agencies, and authorities which are part of the primary government. Special obligation bonds are issued pursuant to specific statutory provisions enacted by the Legislature. Principal and interest payments are made from specifically dedicated fees and other revenues generated by the appropriate program. Special obligation bonds do not constitute general debt of the State.

Special obligation bonds outstanding at June 30, 1999, were as follows (expressed in thousands):

	<u>Final Maturity Date</u>	<u>Interest Rate(s) %</u>	<u>Balance</u>
Arkansas Economic Development Commission - Guaranty Fund Revenue Bonds - 1990 Series	2000	6.50	\$ 690
Vocational and Technical Education - Capital Improvement - 1992 A Series	2012	5.80 - 6.38	1,270
Department of Parks and Tourism - State Parks Revenue System - 1971 Series	2000	5.00 - 6.75	530
War Memorial Stadium Commission - Revenue Improvement Bonds - 1995 Series	2000	6.25	1,440
Total			<u>\$3,930</u>

Future amounts required to pay principal and interest on special obligation bonds at June 30, 1999, were as follows (expressed in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2000	\$1,985	\$ 206	\$2,191
2001	810	98	908
2002	75	71	146
2003	80	67	147
2004	85	62	147
Thereafter	895	276	1,171
Total	<u>\$3,930</u>	<u>\$ 780</u>	<u>\$4,710</u>

Details of special obligation bonds outstanding are as follows:

Arkansas Economic Development Commission - The \$5.3 million Arkansas Economic Development Commission Guaranty Fund Revenue Bonds, Series 1990, dated April 1, 1990, were issued under the authority of Arkansas Code Annotated 15-4-701 and pursuant to a resolution duly adopted by the Arkansas Economic Development Commission. The proceeds from the sale of the bonds were used to replenish monies held in the Commission's Bond Reserve Guaranty Fund. The bonds are payable from earnings derived by the State Board of Finance from investment of State Treasury balances.

Vocational and Technical Education - The capital improvement revenue bonds were issued under the authority of Act 6 of the First Extraordinary Session of 1968, as amended. The bonds are special obligations of the Department of Workforce Education and are payable from and secured solely by pledged revenues and investment earnings on the proceeds of the bonds. The proceeds from the sale of the bonds were used to finance various capital improvements at vocational technical schools.

Department of Parks and Tourism - Act 399 of 1953 authorized the Department to borrow money and issue bonds for the improvement of parks in the State Parks System. The 1971 series bonds debenture is secured by a pledge of gross revenues derived from operation and/or ownership of the State Parks System. This debenture does not constitute an indebtedness for which the faith and credit of the State of Arkansas or any of its revenues are pledged and is not secured by a mortgage or lien on any State Parks System facility. The 1971 bonds were issued to provide financing for a portion of the cost of constructing improvements to various parks in the State Parks System. The bonds are payable from revenues generated by the State Parks System.

War Memorial Stadium Commission - The War Memorial Stadium Commission Stadium Improvement Revenue Bonds Series 1995, dated December 15, 1995, in the amount of \$3.15 million were issued under the provisions of Amendment 65 to the Constitution of the State of Arkansas and Arkansas Code Annotated Sections 22-3-1001 *et seq.* for the purpose of financing the cost of acquiring, constructing, and equipping betterments and improvements to War Memorial Stadium located in Little Rock, Arkansas, and paying costs of issuing the bonds. The bonds are payable from net revenues derived by the Commission from the operation of the Stadium.

Other Debt Instruments - Other debt instruments are similar to special obligation bonds in regard to the methods of issuance and the sources of repayment of principal and interest.

Other debt instruments outstanding at June 30, 1999, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s) %	Balance
Certificates of Indebtedness:			
State Building Services - 1984 Issue "A"	2003	8.50	\$1,135
State Building Services - 1984 Issue "C"	2003	8.50	2,761
State Building Services - 1985 Issue "D"	2003	8.50	1,165
State Building Services - 1986 Issue "E"	2003	8.50	111
Arkansas Economic Development Commission Bond Reserve Guaranty Fund - Issues in Default	2013	various	1,970
Total			<u>\$7,142</u>

Future amounts required to pay principal and interest on other debt instruments at June 30, 1999, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
2000	\$ 1,288	\$ 522	\$ 1,810
2001	1,091	428	1,519
2002	1,148	337	1,485
2003	1,240	238	1,478
2004	1,345	131	1,476
Thereafter	1,030	265	1,295
Total	<u>\$ 7,142</u>	<u>\$ 1,921</u>	<u>\$ 9,063</u>

Details of other debt instruments are as follows:

State Building Services - Act 458 of 1983 authorized State Building Services to issue certificates of indebtedness designated as State Building Services Certificates of Indebtedness. These certificates of indebtedness are special obligations secured solely by a lien on and pledge of specific pledged revenues. The Act limited the total principal amount to \$25 million. The proceeds of the sale of certificates of indebtedness were used to construct facilities for the Department of Correction and to construct and equip facilities at State supported institutions of higher education. Debt service requirements are met by certain pledged revenues.

Arkansas Economic Development Commission ("AEDC") - The AEDC Bond Reserve Guaranty Fund is used to guarantee amortization payments on industrial development revenue bonds issued by counties and municipalities within the State of Arkansas. At June 30, 1999, total bonds guaranteed by the AEDC Bond Reserve Guaranty Fund amounted to approximately \$38.8 million of which bonds totaling approximately \$2 million were in default status and are recorded in the General Long-Term Debt Account Group.

Notes Payable to Component Units - Notes payable to component units consist of notes issued to ADFA for construction and renovation of various State agency facilities. Principal and interest payments are made from specifically dedicated fees and other revenue sources. The outstanding balance of the notes payable to component units at June 30, 1999, was approximately \$27 million.

Future amounts required to pay principal and interest on notes payable to component units at June 30, 1999, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
2000	\$ 1,685	\$ 2,966	\$ 4,651
2001	1,770	2,884	4,654
2002	1,845	2,805	4,650
2003	1,935	2,721	4,656
2004	2,030	2,622	4,652
Thereafter	17,914	20,976	38,890
Total	<u>\$27,179</u>	<u>\$34,974</u>	<u>\$62,153</u>

Proprietary Fund

Construction Assistance Revolving Loan Fund (the "Fund") - ADFA issues special obligation bonds on behalf of the Fund. The Fund uses the proceeds to support operations. The Fund is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities. The bonds are payable solely from loan repayments, interest on investments, and financing fees generated by the Fund. The State is not obligated to pay the bonds, and neither the faith and credit nor the taxing power of the State is pledged to the payment of principal or redemption price or interest on the bonds.

Future amounts required to pay principal and interest on the special obligation bonds at June 30, 1999, were as follows (expressed in thousands). The principal amount shown differs from the amount on the combined balance sheet due to unamortized discounts of \$1.3 million:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2000	\$ 3,535	\$ 6,084	\$ 9,619
2001	3,705	5,918	9,623
2002	4,225	5,738	9,963
2003	4,690	5,532	10,222
2004	4,930	5,304	10,234
Thereafter	98,290	40,661	138,951
Total	<u>\$119,375</u>	<u>\$69,237</u>	<u>\$188,612</u>

Higher Education Fund

Colleges and Universities - The Boards of Trustees of State-supported colleges and universities are authorized to issue revenue bonds and notes for the purpose of financing all or part of the acquisition of land, the construction or renovation of buildings and the acquisition of furnishings or equipment for any such buildings of all State colleges and universities. The bonds, which are not general debt of the State, are payable from student tuition and other fees.

At June 30, 1999, college and university revenue bonds and notes payable outstanding were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s) %	Balance
Henderson State University	2020	3.00 - 9.00	\$ 11,036
Southern Arkansas University - Magnolia	2014	3.00 - 8.75	9,036
Southern Arkansas University Tech - Camden	2015	4.80	740
Arkansas State University - Beebe	2012	3.00 - 7.04	5,653
Arkansas State University - Jonesboro	2009	3.00 - 7.50	40,585
Arkansas State University - Mountain Home	2018	5.00	6,295
Arkansas Tech University	2016	2.88 - 7.50	2,141
University of Arkansas at Fayetteville	2022	variable	86,262
University of Arkansas at Little Rock	2014	2.78 - 6.00	30,366
University of Arkansas for Medical Sciences	2019	1.40 - 8.65	94,366
University of Arkansas at Monticello	2004	2.88 - 4.50	5,666
University of Arkansas at Pine Bluff	2027	3.63 - 7.01	11,633
University of Central Arkansas	2026	2.75 - 8.00	46,025
University of Arkansas at Hope Community College	2018	5.75	7,870
University of Arkansas at Batesville Community College	2012	3.50 - 6.00	4,000
East Arkansas Community College	2012	3.50 - 6.00	1,900
Garland County Community College	2017	5.50 - 6.50	3,835
Mid-South Technical College	2018	4.60 - 6.12	10,765
Mississippi County Community College	2018	5.40 - 6.00	3,315
North Arkansas Community Technical College	2016	5.37 - 6.50	3,037
Phillips Community College of the University of Arkansas	2000	8.00	6,403
Rich Mountain Community College	2005	3.60 - 5.30	515
Westark College	2017	4.00	27,910
Northwest Arkansas Community College	2012	4.25 - 5.80	4,605
Petit Jean College	2017	4.88	2,500
Pulaski Technical College	2014	variable	4,650
Total			<u>\$ 431,109</u>

Future amounts required to pay principal and interest on college and university revenue bonds and notes payable as of June 30, 1999, were as follows (expressed in thousands):

Year Ending June 30:	Principal	Interest	Total
2000	\$ 19,286	\$ 17,081	\$ 36,367
2001	24,640	16,464	41,104
2002	20,625	15,530	36,155
2003	21,159	14,690	35,849
2004	20,313	13,861	34,174
Thereafter	325,086	114,239	439,325
Total	<u>\$431,109</u>	<u>\$191,865</u>	<u>\$622,974</u>

Component Units -

Arkansas Student Loan Authority - Revenue bonds are issued by ASLA pursuant to Act 873 of 1977 to make loans directly to students and purchase qualified student loans from Arkansas lending institutions or loans made by non-Arkansas institutions to Arkansas residents. Principal and interest payments are made from specifically dedicated revenues generated by ASLA. Revenue bonds do not constitute general debt of the State.

Revenue bonds outstanding at June 30, 1999, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s) %	Balance
Student Loan Revenue Bonds, Series 1991	2002	4.75 - 7.15	\$ 950
Student Loan Revenue Bonds, Series 1992A-1	2006	5.25 - 6.40	44,180
Student Loan Revenue Bonds, Series 1992A-2	2006	6.13 - 6.75	4,695
Student Loan Revenue Bonds, Series 1993A-1	2006	5.00 - 6.13	4,540
Student Loan Revenue Bonds, Series 1994A	2009	adjustable	53,400
Student Loan Revenue Bonds, Series 1994B	2009	7.25	6,600
Student Loan Revenue Refunding Bonds, Series 1996A	2010	adjustable	42,900
Student Loan Revenue Refunding Bonds, Series 1996B	2010	6.25	14,000
Student Loan Revenue Bonds, Series 1997A	2014	adjustable	31,150
Student Loan Revenue Refunding Bonds, Series 1997B	2014	5.10 - 5.60	17,400
Revenue Bonds			
Total			<u>\$219,815</u>

Future amounts required to pay principal and interest on revenue bonds at June 30, 1999, were as follows (expressed in thousands):

Year Ending June 30:	Principal	Interest	Total
2000	\$ 4,745	\$ 11,354	\$ 16,099
2001	17,710	10,801	28,511
2002	13,520	9,837	23,357
2003	6,860	9,234	16,094
2004	3,620	9,088	12,708
Thereafter	173,360	40,913	214,273
Total	<u>\$219,815</u>	<u>\$ 91,227</u>	<u>\$311,042</u>

Revenue Bonds are reflected in the financial statements net of approximately \$34 thousand of discounts.

Arkansas Development Finance Authority - Pursuant to Act 1062, ADFA is authorized and empowered to issue bonds and various other debt instruments for the purpose of financing qualified agricultural business enterprises, capital improvement facilities, educational facilities, health care facilities, housing developments and industrial enterprises.

Bonds and other debt instruments issued by ADFA are special obligations of ADFA payable solely from and collateralized by a first lien on the proceeds, monies, revenues, rights, interests, and collections pledged therefore under the resolutions authorizing the particular issues. The State is not obligated to pay the bonds and other debt instruments, and neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal or redemption price of or interest on the bonds and other debt instruments. ADFA has no taxing power.

Bonds payable at June 30, 1999, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rates %	Balance
Single Family Bonds Payable	2030	3.70 - 11.42	\$ 903,636
Multi-Family Bonds Payable	2027	4.15 - 9.40	206,268
Development Finance Programs Bonds Payable	2030	3.50 - 10.60	266,433
Total			<u>\$1,376,337</u>

Future amounts required to pay principal and interest on ADFA debt at June 30, 1999, were as follows (expressed in thousands). The principal amount shown differs from the amount on the balance sheet due to unamortized premiums of \$1.7 million:

	Principal	Interest	Total
Year Ending June 30:			
2000	\$ 74,349	\$ 78,536	\$ 152,885
2001	39,369	76,538	115,907
2002	40,574	74,075	114,649
2003	42,241	71,357	113,598
2004	46,606	68,449	115,055
Thereafter	1,131,478	808,424	1,939,902
Total	<u>\$1,374,617</u>	<u>\$1,177,379</u>	<u>\$2,551,996</u>

Current Year Defeasances

Primary Government –

On December 1, 1998, Henderson State University issued \$2.68 million Board of Trustees of Henderson State University Student Fee Secured Refunding Bonds, Series 1998 to defease \$2.615 million Student Fee Secured Refunding Bonds, Series 1992. All bond proceeds were used to purchase U.S. Government Securities. These securities were deposited in an irrevocable trust with an escrow agent to reduce the aggregate debt service payment by approximately \$400,000 over the next 18 years. The economic gain (difference between present value of the old and new debt service payments) resulting from the refunding is \$300,000.

On December 1, 1998, University of Central Arkansas issued a \$6.17 million Board of Trustees of University of Central Arkansas Academic Facilities Refunding Bond, Series 1998 to defease \$1.29 million Refunding Bond, Series 1992B. Bond proceeds of \$3.5 million were used for capital improvements relating to

technology fields, while proceeds of \$800 thousand were used for construction of the Donald W. Reynolds Performance Hall. The remaining proceeds were used to purchase U.S. Government Securities. These securities were deposited in an irrevocable trust with an escrow agent to reduce the aggregate debt service payment by approximately \$500 thousand over the next six years. The economic gain (difference between present value of the old and new debt service payments) was approximately \$10 thousand.

Prior Defeasances

Primary Government -

In prior years, the State defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately \$127 million are considered defeased at June 30, 1999.

Component Units -

In prior years, ADFA defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately \$78.1 million are considered defeased at June 30, 1999.

NOTE 11: LEASES

The State has entered into various lease agreements with the private sector, primarily for buildings and equipment. These agreements are for various terms with most containing clauses indicating that their continuation is subject to continuing appropriation by the Legislature. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease.

The State also has lease agreements for buildings and equipment which are accounted for as capital leases. FASB Statement No. 13, *Accounting for Leases*, requires a lease that transfers substantially all of the benefits and risks of ownership to the lessee to be accounted for as the acquisition of a fixed asset and the incurrence of an obligation by the lessee. Capital leases for the nongovernmental funds are reported as a long-term obligation in those funds along with the related assets. Capital leases for the Governmental Funds are reported in the General Long-Term Debt Account Group and the related assets are reported in the General Fixed Assets Account Group.

The State also has direct-financing lease agreements with ADFA. These leases are reported separately from other capital leases in the General Long-Term Debt Account Group and the related assets are reported in the General Fixed Assets Account Group.

Most of these leases contain a fiscal funding addendum stating that the lease shall terminate on the last day of the fiscal year if appropriated funds for the ensuing fiscal year are insufficient. However, these leases are accounted for as capital leases and are considered non-cancelable for financial reporting purposes.

Future minimum commitments under operating and capital leases by fund type as of June 30, 1999, were as follows (expressed in thousands):

	Capital Leases	
	GLTDAG	Higher Education Fund
Year Ending June 30:		
2000	\$ 7,017	\$2,049
2001	6,445	1,542
2002	6,285	1,144
2003	3,268	542
2004	2,795	249
Thereafter	5,975	59
Total Minimum Lease Payments	31,785	5,585
Less: Interest	(5,493)	(706)
Present Value of Future Minimum Lease Payments	<u>\$ 26,292</u>	<u>\$ 4,879</u>

	Capital Leases with Component Unit		
	GLTDAG	Proprietary Fund	Higher Education Fund
Year Ending June 30:			
2000	\$ 7,747	\$ 239	\$ 150
2001	7,948	244	150
2002	7,948	242	150
2003	7,944	241	150
2004	7,929	244	150
Thereafter	62,451	1,932	404
Total Minimum Lease Payments	101,967	3,142	1,154
Less: Interest	(30,860)	(1,106)	(207)
Present Value of Future Minimum Lease Payments	<u>\$ 71,107</u>	<u>\$ 2,036</u>	<u>\$ 947</u>

	Operating Leases		
	General Government	Proprietary Fund	Higher Education Fund
Year Ending June 30:			
2000	\$ 11,054	\$ 199	\$ 2,613
2001	7,860	83	1,762
2002	3,668		1,208
2003	2,467		1,210
2004	1,542		822
Thereafter	6,610		145
Total Minimum Lease Payments	<u>\$ 33,201</u>	<u>\$ 282</u>	<u>\$ 7,760</u>

NOTE 12: FUND EQUITY

Designations

Detail of designated general fund balance as of June 30, 1999, is as follows (expressed in thousands):

Continuing appropriations	\$ 80,216
Budget stabilization	1,327,161
Total (memorandum only)	<u>\$1,407,377</u>

Designations for budget stabilization reflect the intent of Arkansas financial laws with regard to future use of current financial resources.

Deficit Retained Earnings

The WCC had a \$14 million deficit in retained earnings as of June 30, 1999. The deficit was generated by a change in actuarial assumptions during the fiscal year ended June 30, 1997. If the deficit is not eliminated by normal operations, WCC has the ability to change the investment strategy to receive larger investment returns or increase the threshold of claims submitted to the WCC.

The Other Revolving Loan Funds had a \$230 thousand deficit in retained earnings as of June 30, 1999. Management of the Other Revolving Loan Funds is confident that the deficits will be eliminated through normal operations.

Contributed Capital

The changes in the State's contributed capital accounts for its proprietary funds were as follows:

	Construction Assistance Revolving Loan Fund	Other Revolving Loan Funds	Total
Beginning balance, as adjusted	\$114,504	\$5,931	\$120,435
Capitalization of federal grants	4,058	2,017	6,075
Ending balance	<u>\$118,562</u>	<u>\$7,948</u>	<u>\$126,510</u>

NOTE 13: PENSIONS

Plan Descriptions - The State contributes to three single-employer defined benefit pension plans: Arkansas Judicial Retirement Plan ("Judicial"), Arkansas Highway and Transportation Retirement Plan ("Highway") and State Police. State Police and Judicial are administered by Arkansas Public Employees Retirement System, and Highway is administered by the plan itself. Each plan provides retirement, disability, and death benefits, in accordance with benefit provisions as established and amended by State Statute (A.C.A.24). Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

Arkansas Judicial Retirement Plan	Arkansas Highway and Transportation Retirement Plan	Arkansas State Police Retirement Plan
One Union National Plaza 124 W. Capitol, 5th Floor Little Rock, AR 72201 (501) 682-7855	P. O. Box 2261 Little Rock, AR 72203 (501) 569-2000	One Union National Plaza 124 W. Capitol, 5th Floor Little Rock, AR 72201 (501) 682-7855

The State also contributes to two cost-sharing multiple-employer defined benefit plans: Teacher, administered by the Arkansas Teacher Retirement System Board of Trustees, and APERS, administered by the Arkansas Public Employees Retirement System Board of Trustees, which provide retirement, disability and death benefits, and annual cost of living adjustments to plan members and beneficiaries. Benefit provisions are established and amended by state statute (A.C.A.24). Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

Arkansas Teacher Retirement Plan	Arkansas Public Employees Retirement Plan
1400 West Third Street Little Rock, AR 72201 (501) 682-1517	One Union National Plaza 124 W. Capitol, 5th Floor Little Rock, AR 72201 (501) 682-7855

For the year ended June 30, 1999, the payroll of State employees covered by the pension plans was approximately \$815 million.

Funding Policies - State statute establishes the contribution requirements of plan members and the State. The State's annual pension cost for the current year and related information for each plan is as follows:

	<u>Judicial</u>	<u>Teacher</u>	<u>State Police</u>	<u>Highway</u>	<u>APERS</u>
Number of participating employers/contributing entities	1	428	1	1	797
Contribution rates for the fiscal year ended June 30, 1999 (% of covered payroll):					
State	24.22 %	12.00 %	30.82 %	12.90 %	10.00 %
Plan members - contributory plans	5.00-6.00%	6.00 %	0.00 %	6.00 %	6.00 %
Annual pension cost (in thousands)	\$3,150	\$166,786	\$6,491	\$14,499	\$93,323
Contributions made (in thousands)	\$4,069	\$166,786	\$6,748	\$14,499	\$93,323

The required contribution amounts and the percentage contributed for Teacher and APERS for the current year and each of the two preceding years are as follows:

<u>Fiscal Year</u>	<u>Plan</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1999	Teacher	\$166,786	100 %
	APERS	93,323	100 %
1998	Teacher	\$158,963	100 %
	APERS	87,529	100 %
1997	Teacher	\$153,546	100 %
	APERS	82,051	100 %

State Police and APERS consist of both a contributory plan, which has been in effect since the beginning of the plans, and is available to all persons who became members prior to January 1, 1978; and a non-contributory plan, which was created by Act 793 of 1977 and was effective January 1, 1978. The non-contributory plan applies automatically to all persons hired January 1, 1978, or later. All non-retired members of the State Police are now covered by non-contributory benefits. Members of the Teacher plan contribute 6% of their salaries, except for members who became members before July 1, 1971, who can contribute only on the first \$7,800 of their annual salary; and effective July 1, 1993, all new members, including any former active members, were automatically enrolled as non-contributory members. By individual election, members of the Teacher plan may choose to contribute. Active members of the Judicial plan contribute 6% of their salaries. Members of the Judicial plan with 20 or more years of service and members age 65 or older with ten or more years of service do not contribute to the plan. Active members of the Highway plan contribute 6% of their salaries.

Included in the June 30, 1999, investment portfolio of APERS and the State Police plans are the following investments (other than those issued by the U.S. Government) in any one organization that represent 5% or more of plan net assets:

State Police - Biam Group International Equity Fund	\$ 31,990,866
APERS - Brinson Equity Fund	199,133,110
S&P 500 Index Fund	306,668,501
Wellington Mortgage Backed Securities Fund	373,956,459

The Teacher, Highway, and Judicial plans did not have investments of any commercial or industrial organization whose market value equals 5% or more of the individual plan's net assets available for benefits.

The State's 1999 contribution to APERS represented 75.1% of total contributions required of all participating entities. Beginning with the 1997 fiscal year, the State no longer contributes to Teacher. As required by Act 1194 of 1995, the State increased the local state supported school appropriations so that such retirement contributions come directly from the school districts.

The State's annual pension cost and net pension obligation to State Police for the current year is as follows (in thousands):

Annual required contribution ("ARC")	\$ 6,398
Interest on net pension obligation	424
Adjustment to annual required contribution	(331)
Annual pension cost	6,491
Contributions made	6,748
Decrease in net pension obligation	(257)
Net pension obligation, beginning of year	5,466
Net pension obligation, end of year	\$ 5,209

The State has a net pension asset of approximately \$10.5 million for Judicial at June 30, 1999. For Highway, the statutory contributions made by the State equaled the annual required contributions ("ARC") required by GASB 27 for each of the fiscal years that began between December 15, 1986 and June 30, 1996, and therefore the State has neither a transition asset or liability.

No pension liability exists for Teacher or APERS, as the State's contributions to each respective plan for the year ending June 30, 1999, was equal to the ARC.

Three-year trend information for the single-employer plans is as follows:

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Judicial	06/30/1999	\$ 3,150	129.17 %	\$ (10,504)
	06/30/1998	3,183	143.42 %	(10,493)
	06/30/1997	3,613	148.93 %	(10,040)
State Police	06/30/1999	\$ 6,491	103.96 %	\$ 5,209
	06/30/1998	6,632	108.75 %	5,466
	06/30/1997	7,066	86.48 %	6,046
Highway	06/30/1999	\$14,499	100.00 %	N/A
	06/30/1998	13,976	100.00 %	N/A
	06/30/1997	14,851	100.00 %	N/A

Higher Education

All active higher education employees who work 20 or more hours a week have the option of participating in either APERS, Teacher or the Teachers Insurance Annuity Association - College Retirement Equities Fund ("TIAA-CREF") or the Fidelity Fund.

TIAA-CREF and the Fidelity Fund were established by the Board of Trustees of each respective college or university. These funds represent a defined contribution plan as set forth in Section 403(b) of the Internal Revenue Code. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Each college or university contributes a percentage of an employee's salary, ranging from 5% to 10%, to a TIAA-CREF or Fidelity Fund retirement account, allocated between the two funds according to the employee's choice. In addition, employees may make voluntary contributions of any amount up to the individual maximum allowance. During 1999, total employer contributions to TIAA-CREF and Fidelity were \$34,283 thousand and \$4,566 thousand, respectively. Employee contributions to TIAA-CREF and Fidelity were \$28,883 thousand and \$4,696 thousand, respectively.

NOTE 14: SEGMENT INFORMATION - ENTERPRISE FUND

Segment financial information for the State's enterprise funds is as follows (expressed in thousands):

Description	Workers' Compensation Commission	Construction Assistance Revolving Loan Fund	Other Revolving Loan Funds
Operating revenues	\$ 19,098	\$ 10,211	\$ 447
Depreciation and amortization	210	259	
Operating income (loss)	(9,244)	2,689	(502)
Operating transfers out	162		
Net income (loss)	(2,676)	2,689	(502)
Contributed capital additions		4,058	2,017
Fixed asset additions	151		54
Net working capital	142,440	242,026	7,625
Total assets	169,986	248,949	9,313
Long-term liabilities payable from operating revenues	170,156	118,058	
Fund equity (deficit)	(14,022)	126,007	7,718

NOTE 15: COMPONENT UNIT DISCLOSURES

The financial statements do not include the financial position or results of operations of foundations or other organizations affiliated with certain higher education institutions. Such organizations are separate nonprofit entities incorporated in the State. Their purpose is to assist affiliated higher education institutions in performing their work and services. Oversight of each organization is the responsibility of separate and independently elected boards of directors not otherwise affiliated with their respective higher education institutions. In carrying out their responsibilities, the boards of directors of the organizations employ management, form policy, and maintain fiscal accountability over funds administered by their respective organizations.

Condensed financial statements of discretely presented component units at June 30, 1999, are as follows (expressed in thousands):

	Arkansas Student Loan Authority	Arkansas Development Finance Authority	Total
Balance Sheet			
Assets:			
Other Assets	\$ 236,025	\$ 1,556,841	\$ 1,792,866
Fixed Assets, net	20	475	495
Total Assets	<u>\$ 236,045</u>	<u>\$ 1,557,316</u>	<u>\$ 1,793,361</u>
Liabilities:			
Other Liabilities	\$ 3,933	\$ 59,199	\$ 63,132
Revenue Bonds Payable	219,781		219,781
Special Obligation Bonds Payable		1,376,337	1,376,337
Total Liabilities	<u>223,714</u>	<u>1,435,536</u>	<u>1,659,250</u>
Fund Equity -			
Retained Earnings	<u>12,331</u>	<u>121,780</u>	<u>134,111</u>
Total Equity	<u>12,331</u>	<u>121,780</u>	<u>134,111</u>
Total Liabilities and Equity	<u>\$ 236,045</u>	<u>\$ 1,557,316</u>	<u>\$ 1,793,361</u>
Statement of Operations			
Operating Revenues	\$ 17,215	\$ 81,489	\$ 98,704
Operating Expenses	(13,513)	(104,086)	(117,599)
Depreciation and Amortization	<u>(932)</u>	<u>(5,520)</u>	<u>(6,452)</u>
Operating Income (Loss)	2,770	(28,117)	(25,347)
Non-Operating Revenues			
Operating Grants		<u>17,182</u>	<u>17,182</u>
Net Income (Loss)	2,770	(10,935)	(8,165)
Equity - Beginning of Year, as Adjusted (Note 6)	<u>9,561</u>	<u>132,715</u>	<u>142,276</u>
Equity - End of Year	<u>\$ 12,331</u>	<u>\$ 121,780</u>	<u>\$ 134,111</u>

The above discretely presented component units of the State do not issue classified balance sheets; therefore, information regarding current assets and current liabilities is unavailable.

NOTE 16: RISK MANAGEMENT PROGRAM

The following describes the risk management programs administered by the State. There have been no significant reductions in insurance coverage from the prior year.

Health and Life Plans

The State established the State Employees Insurance Advisory Committee (the "Committee") by Act 48 of 1972 and allowed the Committee to pursue self funding activities by Act 576 of 1975. The Committee provides comprehensive major medical care, prescription drug and life insurance (the "Plans") for employees of the State and its participating component units, as well as their dependents through the establishment of a variety of self-insured plans. The Committee also makes medical coverage available to retirees should they elect to continue such coverage at their own expense. The employee has the option of choosing among the various Plans. Coverage is funded by contributions from the State, participating component units, and participating employees and retirees to the Plans. The Plans are administered by third parties who are responsible for the processing of claims and administration of cost containment.

The Plans pay most expenses that are medically necessary and eligible for coverage based on usual, customary, and reasonable allowances. Claims are subject to specified annual deductible and co-payment requirements. The Plans are also subject to varying lifetime benefit maximums.

The Committee also acts as an intermediary for the public school employees' health insurance as offered by the various school districts throughout the State. In this capacity, the Committee received premium payments which are not included in the accompanying financial statements amounting to approximately \$132 million during 1999. The Committee remits the premium payments to third party insurance companies who fully insure the public school employee group. The Committee provides prescription drug insurance to the public school employees and their dependents within the prescription drug plan offered to the employees of the State, its participating component units, and their dependents. The Committee assumes risk of loss and is the predominant participant in the Plans. Premiums are funded through contributions from the school districts and the public school employees.

Basic term life insurance (death benefit) is provided to all State employees with varying amounts of coverage based on the classification of the employee. This basic coverage is provided at no cost to the employee and is funded by contributions from the State. Additional amounts of coverage are available to the employees, retirees and their dependents and the cost of such additional coverage is funded by employee contributions. The plan is administered by a third party who is responsible for processing of claims.

Claim liabilities for the Plans for the employees of the State and the prescription drug plan for the public school employees are based on actuarial estimates of the ultimate cost of claims that have been incurred (both reported and unreported) and are recorded in the general fund. An analysis of changes in aggregate liabilities for claims and claims adjustment expenses for the current and prior fiscal year are as follows (expressed in thousands):

	1999	1998
Claim liability, beginning of year	\$ 16,252	\$ 18,913
Incurred claims	128,851	130,229
Claims payments	(127,733)	(132,890)
Claim liability, end of year	<u>\$ 17,370</u>	<u>\$ 16,252</u>

The Plans have not purchased any annuity contracts on behalf of claimants.

Risk Management Office

The State established the Risk Management Office in accordance with State law for the purpose of analyzing and making recommendations as to cost effective loss control and safety programs for the various State agencies. Accordingly, State agencies retain the ultimate decision authority over whether to purchase commercial insurance coverage for property losses.

For those State buildings covered by commercial insurance, the building and contents are generally insured for the full amount of losses subject to varying deductible amounts up to \$25 thousand per occurrence. Losses arising from earthquakes are generally insured for the full amount of losses subject to a deductible of 5% of the building's value. Certain State agencies have chosen not to purchase commercial insurance on certain buildings, and as such, losses are recorded as expenditures in the General Fund when paid.

The State does not purchase liability insurance coverage for claims arising from third party losses on State property as the State has sovereign immunity against such claims. Claims against the State for such losses are heard before the State Claims Commission.

For those State vehicles covered by commercial insurance, the vehicle is generally insured for the full amount of losses subject to varying deductible amounts. Also, such commercial insurance generally provides coverage against liability losses up to \$100 thousand per occurrence in state and \$500 thousand per occurrence out of state. Certain State agencies have elected not to purchase commercial insurance for certain vehicles and losses on such vehicles are recorded as expenditures in the General Fund as paid. Liability losses arising from uninsured vehicles are heard and adjudicated by the State Claims Commission.

There have been no instances in the past three fiscal years wherein the amount of commercial insurance settlements have exceeded insurance coverage.

State Claims Commission

The State Claims Commission was established by State law to hear and adjudicate all claims against the State and its agencies and component units excluding those arising from workers' compensation law, employment security law and the acts of the various retirement plans. According to State law, only claims for actual damages are allowed. The Commission may authorize awards for actual damages up to \$7.5 thousand without further approval while amounts exceeding \$7.5 thousand must be approved by the State General Assembly. The claim liability is determined by review of pending claims and estimation of the ultimate cost to settle such claims and is recorded in the General Fund.

State Workers' Compensation Plans

The State's Workers' Compensation Program (the "Program") was created by State law to provide benefits to State employees injured on the job. All employees of the State and its component units are included in the Program. Prior to July 1, 1994, employees of state sponsored school districts in the State were also included in the plan, and the State continues to pay benefits to those employees injured prior to that date. An injury is covered under workers' compensation if it is caused by an accident that arose out of and in the course of employment. Losses payable by the Program include medical claims, loss of wages, disability and death benefits.

The Program is self-insured and is administered by the Public Employees Claims Division of the State Insurance Department. Each State agency is responsible for contributing to the Program each year an amount determined by the division based on past claims experience. The State's liability for claims at June 30, 1999, including claims incurred but not reported, is estimated to be approximately \$66 million and is recorded in the General Long-Term Debt Account Group as a component of claims and judgments payable.

The State also provides two forms of loss protection to employers and insurance companies operating in the State to minimize workers' compensation claims paid for wage losses. The first such plan was created by state law and is known as the Death & Permanent Total Disability Trust Fund ("Disability Trust Fund"). The Disability Trust Fund pays wage loss benefits in excess of \$75 thousand per case. The employer's primary

insurer is responsible for the first \$75 thousand per case. The Disability Trust Fund is funded by taxes assessed on workers' compensation premiums earned by insurance companies operating in the State and by assessments on self-insured employers as if they were commercially insured. The liability of the Disability Trust Fund at June 30, 1999, is based on actuarial estimates of ultimate claim costs, for both reported and unreported claims, discounted at 5% and is recorded in the Workers' Compensation Commission Enterprise Fund.

The second such plan was created by State law and is known as the Second Injury Trust Fund. The Second Injury Trust Fund generally pays wage loss benefits for persons which experience a repeated injury of the same body part while employed by a different employer than that which he experienced the first injury. The purpose of the Second Injury Trust Fund is to encourage the employment of persons who have previously filed workers' compensation claims by protecting subsequent employers from wage loss claims arising from repeat injuries. The Second Injury Trust Fund is funded by taxes assessed on workers' compensation premiums earned by insurance companies operating in the state and by assessments on self-insured employers as if they were commercially insured. The claim liability is estimated by discounting at 5% the expected future claim payments of reported claims and is recorded in the Workers' Compensation Commission Enterprise Fund.

The Disability Trust Fund and the Second Injury Trust Fund are administered by the WCC. Changes in the combined balance of the Disability Trust Fund and Second Injury Trust Fund during the current fiscal year are as follows (expressed in thousands):

	1999	1998
Claim liability, beginning of year	\$ 159,735	\$ 152,179
Incurred Claims	18,260	15,715
Claim Payments	(9,875)	(8,159)
Claim liability, end of year	<u>\$ 168,120</u>	<u>\$ 159,735</u>

Petroleum Storage Tank Trust Fund

The Petroleum Storage Tank Trust Fund ("Storage Tank Fund") was established according to State law to provide owners and operators of petroleum storage tanks in the State protection from losses associated with accidental releases from qualified storage tanks. In order for a storage tank to qualify under the Storage Tank Fund it must be registered with all fees paid and meet certain construction and spill protection and detection standards at the time of the release. The Storage Tank Fund will pay first party claims for corrective action up to \$1 million per occurrence with a \$25 thousand deductible as well as third party claims for damages up to \$1 million per occurrence with a \$25 thousand deductible. The Storage Tank Fund is funded by motor fuel taxes and fees paid by storage tank owners and operators. The first party claim liability is determined through the use of engineering estimates of the remaining corrective action for each site. The third party claim liability is estimated at the plan limits for each third party claim filed until actual damages are determined and the liability is recorded in the General Long-Term Debt Account Group.

Changes in the balance of the Storage Tank Fund claim liability during the current fiscal year are as follows (expressed in thousands):

	1999	1998
Claim liability, beginning of year	\$ 9,594	\$ 9,472
Incurred Claims	1,675	2,689
Claim Payments	(2,824)	(2,567)
Claim liability, end of year	<u>\$ 8,445</u>	<u>\$ 9,594</u>

Higher Education Health Plans

The System and Arkansas State University ("ASU") sponsor self-funded health plans for employees and their eligible dependents. All five System campuses, all ASU campuses, state-wide operating units of the Arkansas Archeological Survey and Division of Agriculture, System Administration and the System Foundation participate in the health insurance programs which are administered by third parties who are responsible for the processing of claims and administration of cost containment.

The universities pay a portion of the total premium for full time active employees, while retirees and former employees participate on a fully contributory basis.

Changes in the balance of the System and ASU claim liability during the current fiscal year are as follows (expressed in thousands):

	1999	1998
Claim liability, beginning of year	\$ 8,642	\$ 6,063
Incurred Claims	47,013	42,957
Claim Payments	(45,415)	(40,378)
Claim liability, end of year	<u>\$ 10,240</u>	<u>\$ 8,642</u>

The universities purchase specific reinsurance to reduce their exposure on large claims. Under the specific arrangement, the reinsurance carrier pays for claims for covered individuals which exceed specified limits. Such limits are \$250 thousand and \$100 thousand for the System and ASU, respectively.

The plans have not purchased any annuity contracts on behalf of claimants.

NOTE 17: COMMITMENTS AND CONTINGENCIES

Primary Government -

Litigation - The State, its agencies and employees are defendants in numerous legal proceedings, many of which normally occur in governmental operations. Such litigation includes, but is not limited to, claims assessed against the State for property damage and personal injury, alleged inmate wrongs, other alleged torts, alleged breaches of contract, condemnation proceedings, challenges of state law and other alleged violations of state and federal laws. Certain claims have been adjudicated against the State, but remained unpaid by the State as of the balance sheet date. The State has accrued liabilities in the approximate amount of \$9.7 million for the payment of such claims. For other cases which it is reasonably possible that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General and other counsel estimate the liability to be approximately \$43.5 million.

The State is also involved in a federal school desegregation lawsuit. The State has accrued approximately \$2.6 million for the settlement of these suits.

UAMS was notified that it was the subject of a review being conducted by the United States Department of Health and Human Services Office of Inspector General ("OIG"), under its Physicians at Teaching Hospitals ("PATH") initiative. This program was initiated by the OIG with the intention of reviewing all teaching hospitals in the United States. The program is focused on Medicare billing procedures relative to teaching physicians. UAMS has had initial meetings with the OIG and furnished certain information requested. Elsewhere in the United States, the OIG has settled with teaching hospitals for amounts considerably in excess of \$1,000,000 and has found at least one teaching hospital to be without liability. In 1997 the OIG took steps to terminate certain ongoing audits and UAMS was advised that its audit was one selected for termination. However, a subsequent review of Medicare billings was commenced by the OIG. UAMS has recently been notified that this audit is being suspended by the OIG, however, to be reopened. UAMS management believes that its billing practices comply with all applicable laws and regulations and that the PATII initiative will not have a material effect on the financial position of UAMS.

It is not possible to predict with certainty or exactitude the ultimate outcome of all lawsuits pending or threatened against the State, including those discussed above. Based on the current status of all of these legal proceedings for which accruals have not been made in the State's financial statements, it is the opinion of management and the Attorney General that the proceedings will not have a material adverse impact on the State's financial position.

Federal Grants - The State, including its institutions of higher education, receives significant financial assistance from the U.S. Government in the form of grants and federal revenue sharing entitlements. Entitlement to those resources is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits under either the Federal Single Audit Act or by grantor agencies of the Federal Government or their designees. At June 30, 1999, the amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the State expects such amounts, if any, to be immaterial.

Loan Forgiveness - Under the provisions of the Pulaski County Desegregation Settlement Agreement, the State agreed to provide loans to the Little Rock School District ("LRSD"). If the composite test scores of the LRSD minority students reach a specified level before December 1, 2001, any outstanding loan balance will be forgiven. The standard by which the test scores will be measured has yet to be determined by the parties. As of June 30, 1999, the State's loan receivable is \$20 million and is recorded in the General Fund.

Construction and Other Commitments - At June 30, 1999, the State has commitments of approximately \$633 million for construction and other contracts. The Soil and Water Conservation Commission has approved \$37.6 million in loans for projects for water systems, waste water, or pollution abatement that have not been disbursed at June 30, 1999. Teacher has also extended lines of credit in the amount of \$5 million to ADFA, all of which was unused at June 30, 1999.

Bond Guarantees - The AEDC Bond Reserve Guaranty Fund is used to guarantee amortization on industrial development revenue bonds issued by counties and municipalities within the State of Arkansas. At June 30, 1999, total bonds guaranteed by the AEDC Bond Guaranty Reserve Fund were approximately \$38.8 million. AEDC has committed to guarantee \$2 million in industrial development revenue bonds that have not closed at June 30, 1999.

Claims Incurred but not Reported - The State has established a liability for both reported and unreported insured events, which includes estimates of future payments of claims and related claim adjustment expenses, based on the estimated ultimate cost of settling claims. In estimating its liability for incurred but unpaid claims, the State considers prior experience, industry information and currently recognized trends

affecting data specific to the State. Because actual claim costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease and inflation, the process used in computing the ultimate cost of settling claims and expense for administering claims is necessarily based on estimates.

Compensated Absences - State employees earn vacation leave benefits on the basis of length of service time. Subject to certain restrictions, state employees are compensated for unused vacation time upon leaving the State's employment. Unused vacation time for employees of the governmental funds is accrued in the General Long-Term Debt Account Group.

Arbitrage Rebates - The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. The Construction Assistance Revolving Loan Fund and ASLA have made provisions for revenues above the rebate limit which must be remitted to the Federal Government.

NOTE 18: SUBSEQUENT EVENTS

Component Units - Subsequent to June 30, 1999, ADFA issued approximately \$65 million in special obligation bonds in the Single Family Housing Program Fund, \$23 million in special obligation bonds in the Multi-Family Housing Program Fund, and \$24 million in special obligation bonds in the Economic Development Programs Fund.

* * * * *

Required Supplementary Information
Schedule of Funding Progress
(Expressed in Thousands)

fiscal Year	Plan	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL (Overfunded) as a Percentage of Covered Payroll
1999	Judicial	06/30/1999	\$ 91,783	\$ 82,775	\$ (9,008)	110.9 %	\$ 13,891	(64.8)%
	State Police	06/30/1999	201,751	221,167	19,416	91.2 %	20,388	95.2 %
	Highway	06/30/1999	755,039	727,900	(27,139)	103.7 %	105,232	(25.8)%
1998	Judicial	06/30/1998	\$ 77,175	\$ 71,274	\$ (5,901)	108.3 %	\$ 13,084	(45.1)%
	State Police	06/30/1998	182,997	204,098	21,101	89.7 %	19,817	106.5 %
	Highway	06/30/1998	653,028	647,000	(6,028)	100.9 %	104,520	(5.8)%
1997	Judicial	06/30/1997	\$ 63,285	\$ 65,657	\$ 2,372	96.4 %	\$ 12,422	19.1 %
	State Police	06/30/1997	164,660	190,728	26,068	86.3 %	18,178	143.4 %
	Highway	06/30/1997	580,316	605,100	24,784	95.9 %	112,266	22.1 %

Note to Required Supplementary Information

Actuarial Assumptions - The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	<u>Judicial</u>	<u>State Police</u>	<u>Highway</u>
Actuarial valuation date	June 30, 1999	June 30, 1999	June 30, 1999
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percentage of Pay, Closed	Level Percentage of Pay, Closed	Level Percentage of Pay, Open
Remaining amortization period	N/A**	23 years	N/A
Asset valuation method	4 Year Smoothed Market	4 Year Smoothed Market	5 Year Smoothed Market
Actuarial assumptions:			
Inflation rate	5.00 %	4.75 %	4.50 %
Investment rate of return*	7.50 %	7.75 %	8.00 %
Projected salary increases*	5 to 7.2%	5.75 to 9.55%	5 to 11%
Post retirement benefit increases	3.00 %	3.00 %	3.00 %

*Includes assumed inflation.

**The Judicial Board of Trustees has elected to segregate excess funding amounts in a contingency reserve and to exclude these amounts in the determination of employer contribution rates. Therefore, amortization of the net pension asset of approximately \$10.5 million is not reflected in the computation of the annual required contribution.

Required Supplementary Information

Year 2000 Information (Unaudited)

The year 2000 issue arises because most computer software programs allocate two digits to the year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features—such as environmental systems, elevators, and vehicles—as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under the State's direct control but also the systems of the entities with which the State transacts business. Some the State's systems/equipment affected by the year 2000 issue are critical to the continued and uninterrupted operation of State government.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the State is or will be year 2000 ready, that the State's remediation efforts will be successful in whole or in part, or that parties with whom the State does business will be year 2000 ready.

At any given time, work to address the year 2000 issue with respect to each system deemed mission-critical (i.e., critical to conducting the State's operations) falls predominantly within one of the following stages of work:

- (i) Awareness stage - Establishing a budget and project plan for dealing with the year 2000 issue.
- (ii) Assessment stage - Identifying the systems and components for which year 2000 work is needed.
- (iii) Remediation stage - Making changes to systems/equipment.
- (iv) Validation/testing stage - Validating and testing changes that were made during the remediation stage.

The following paragraphs summarize year 2000 stage-of-work data for the State's mission-critical systems/equipment as of June 30, 1999.

Primary Government -

The State of Arkansas began its year 2000 work in mid 1996 with inventory, assessment and project planning work related to its mission-critical systems. The awareness and assessment phases were completed in late 1996 resulting in estimates for resources and timing. While the Department of Information Systems ("DIS") has assumed a leadership role in the year 2000 issue, many of the duties have been contracted to outside vendors.

The estimates derived from the awareness and assessment stages were used to gain an appropriation of \$10 million from the Arkansas General Assembly in March 1997. These funds were expended and an additional \$1 million was appropriated by the General Assembly in 1999.

In April 1998 planning began for an independent review of the readiness (validation) of State agencies for the year 2000 Phase I. The review of the largest agencies was completed in July of 1998. Of the 40 agencies reviewed in this Phase I, 34 agencies received results where no urgent action was required. Six agencies received results indicating attention was needed.

In most cases, the needs identified were for more detailed documentation or additional resources. Most of these needs have been either partially or completely met as of this report date. A follow-up review of the six agencies identified in Phase I was conducted in December 1998.

Phase II of the review focused on smaller state agencies and was completed in November 1998. No agencies received unsatisfactory reviews.

An overall resource deficit of approximately \$15 million was identified from Phases I and II. Further refinement has indicated that the unidentified resources are closer to \$13.5 million. A supplemental appropriation was requested in January 1999 and later received to fund such projected deficits.

Details of the findings for any specific agency are available from the DIS, Year 2000 Program Office at 501-682-4976 or at One Capitol Mall, Little Rock, Arkansas. The findings will be maintained current, throughout 1999 with periodic reports from agencies. As needed, repeat reviews will be conducted.

Many of the State's most mission critical systems are maintained by DIS. As of the date of this report those systems are approximately 98% complete for year 2000 remediation and validation/testing. Specific details of individual applications may be obtained from the Year 2000 Program Office.

In June 1999, DIS began performing an Independent Verification and Validation (IV & V) of all DIS supported mainframe systems. IV & V examined remediated code to locate potential date-related errors that were previously overlooked. DIS developers completed the recommended code modifications in September 1999.

In June 1998, an independent review of the readiness (validation) of the publicly supported colleges and universities began. This review was completed in January 1999. As of June 30, 1998, the publicly supported colleges and universities are approximately 60% complete for year 2000 remediation and validation/testing. Since that time, no centralized review of the colleges and universities has occurred.

Because of the size and complexity of the year 2000 problem, certain failures can be expected. To mitigate this risk, DIS has issued a policy that no leave time will be authorized for employees from December 1, 1999 to January 31, 2000. This will ensure that maximum resources can be directed at residual problems. Also, contingency planning for unanticipated failures of mission-critical applications will be required. With these measures, it is expected that any residual failures can be repaired or workarounds can be utilized to prevent any adverse impact to State operation.

Component Units -

ASLA has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting ASLA operations. ASLA has addressed all year 2000 issues related to its financial, payroll, and human resource systems by implementing and testing upgraded compliant versions of the existing systems during 1999.

Because third party failures could have a material impact on ASLA's ability to conduct business, management has been corresponding with all critical business partners to verify that plans are being developed to address the year 2000 issue. Such correspondence has been evaluated and assessed by ASLA and is being categorized based upon readiness for the year 2000 issues and prioritized in order of significance.

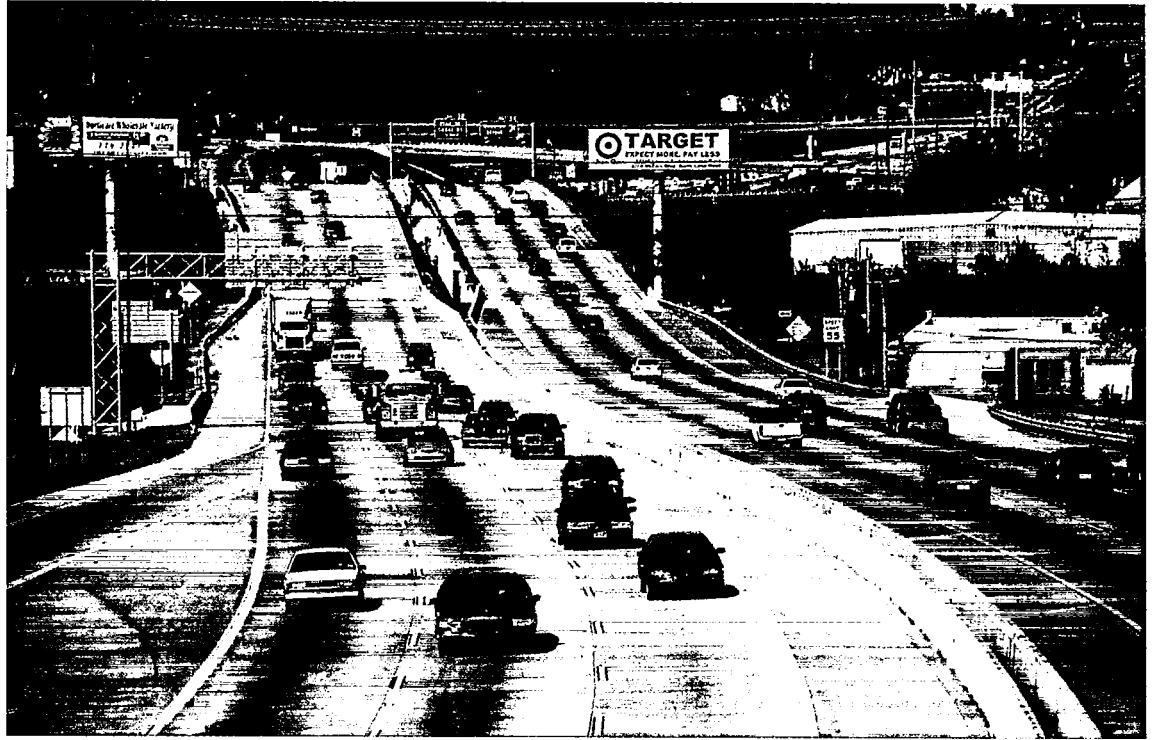
ADFA began its year 2000 work in mid-1996 with inventory, assessment and project planning work related to its mission-critical systems. The awareness and assessment phases were completed in late 1996 resulting in estimates for resources and training. The Authority determined internal resources would primarily be used to reprogram or replace, test and implement hardware and software changes for year 2000 modifications. Internal resources include both employees of the Authority and resources provided by the State of Arkansas. A budget for external resources, such as outside validation and software upgrades necessary to address the year 2000 issue, was not formally established during the awareness and assessment phases. However, it is estimated less than \$100,000 has been expended from the general fund for external resources related to the year 2000 issue. ADFA does not anticipate any significant expenditures related to year 2000 work after year end through December 31, 1999.

In August 1998 planning began for an independent review of the readiness (validation) of ADFA for the year 2000 issue. This review was completed in June 1999 with no urgent action required. The primary suggestion resulting from this review was for ADFA to identify and include in its contingency plan manual processes for its most mission critical business functions should ADFA's network not be functional.

ADFA continues to monitor third party vendors for indication of year 2000 readiness. As of June 30, 1999, ADFA estimated over 80% of ADFA's third party vendors were compliant with regard to year 2000 readiness. In addition, as of June 30, 1999, ADFA continues researching and downloading applicable service packs on workstations as necessary, as a further prevention of any possible minimal interruptions.

Because of the size and complexity of the year 2000 problem, certain failures can be expected. To mitigate this risk, certain members of ADFA's staff will be required to (1) pre-test all mission-critical software packages November 30, 1999, in a mirrored ADFA network environment (simulated lab) operating in the first two months of the year 2000, and (2) to test critical software packages remotely the first three days of the year 2000, to ensure all mission critical software is functioning prior to the first business day of the year 2000. If remote access is unavailable, these staff members will report to ADFA's office to complete the testing. If there is power or system failure, these tests will be performed upon restoration of service.

Financial Section— Combining Financial Statements & Schedules

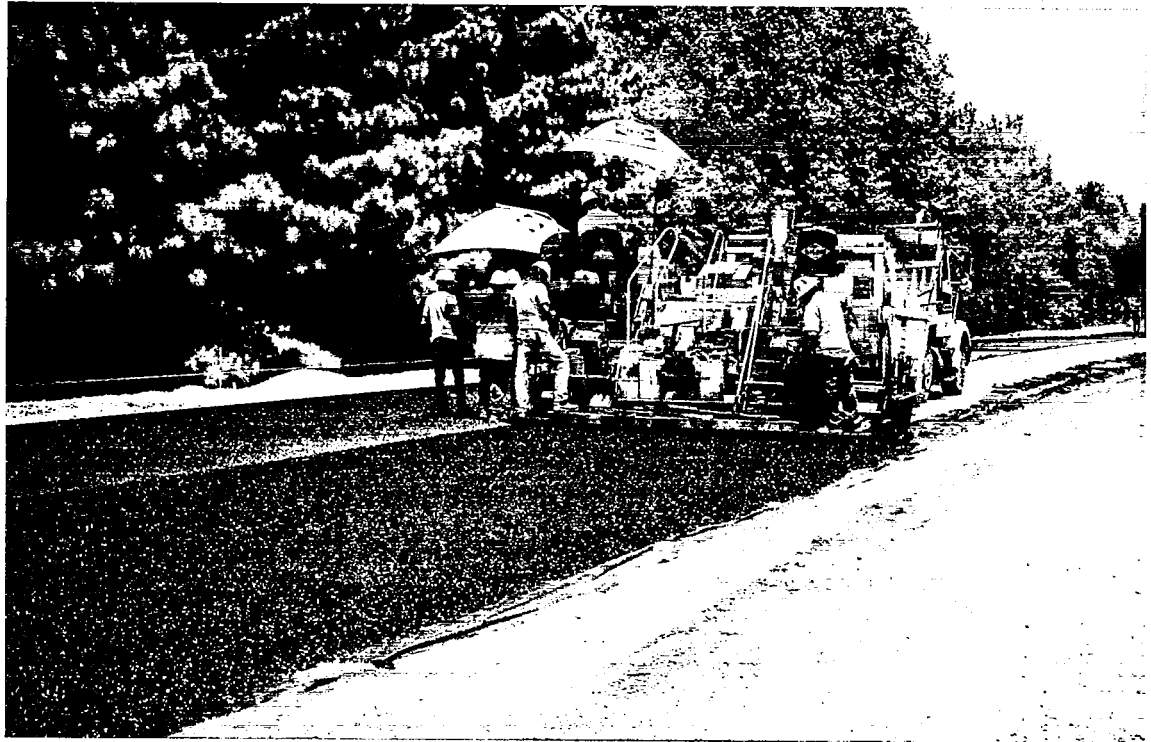


I-630 — Pulaski County

Portions of I-630, Little Rock's crosstown freeway, now carries between 80,000 and 100,000 vehicles per day.







E-30 South of Malvern

Arkansas was the first state in the country to complete its allotment of interstate highway miles. Reconstruction of that system, as seen here south of Malvern, cost more than twice as much per mile as the original construction.



ENTERPRISE FUNDS

The enterprise funds are used to account for operations of those state agencies and/or programs providing goods or services to the general public or a user-charge basis or where the State has decided that periodic determination of revenues earned, expenses incurred and/or income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The enterprise funds consist of the following:

Workers' Compensation Commission - This agency is responsible for providing a prompt and equitable system of compensation for injury or illness sustained during the course of employment.

Construction Assistance Revolving Loan Fund - This program is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities.

Other Revolving Loan Funds - These programs are responsible for providing a perpetual fund for financing the planning, design, acquisition, construction, expansion, equipping, and/or rehabilitation of water systems and the financing of capitalizable educational and general projects for community and technical colleges.

Enterprise Funds

Combining Balance Sheet

June 30, 1999

(Expressed in Thousands)

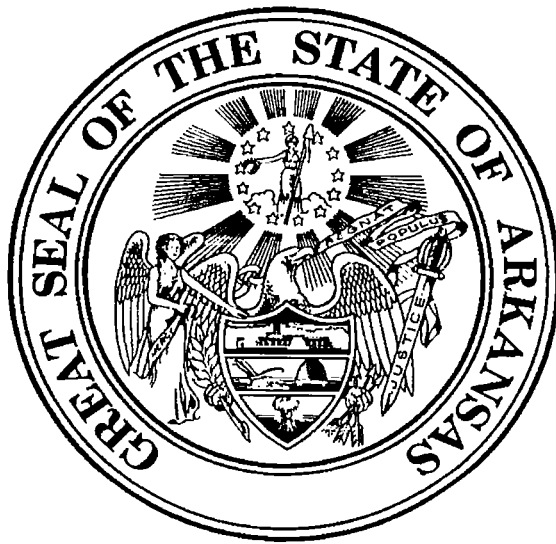
	Workers' Compensation Commission	Construction Assistance Revolving Loan Fund	Other Revolving Loan Funds	Total
ASSETS:				
Cash and cash equivalents	\$144,545	\$ 45,114	\$ 7,741	\$197,400
Investments		31,304		31,304
Receivables, net:				
Accounts	9,935	69		10,004
Loans		169,747	1,428	171,175
Investment related	1,812	676	51	2,539
Fixed assets, net	2,399		93	2,492
Other assets	11,295	2,039		13,334
TOTAL ASSETS	<u>\$169,986</u>	<u>\$248,949</u>	<u>\$ 9,313</u>	<u>\$428,248</u>
LIABILITIES, EQUITY AND OTHER CREDITS:				
Liabilities:				
Accounts payable	\$ 475	\$ 482	\$ 1,595	\$ 2,552
Accrued and other liabilities	13,377	510		13,887
Deferred revenues		3,892		3,892
Workers' compensation benefits payable	168,120			168,120
Capital leases	2,036			2,036
Special obligation bonds payable		118,058		118,058
Total liabilities	<u>184,008</u>	<u>122,942</u>	<u>1,595</u>	<u>308,545</u>
Equity and other credits:				
Retained earnings (deficit) unreserved	(14,022)	7,445	(230)	(6,807)
Contributed capital		118,562	7,948	126,510
Total equity (deficit) and other credits	<u>(14,022)</u>	<u>126,007</u>	<u>7,718</u>	<u>119,703</u>
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	<u>\$169,986</u>	<u>\$248,949</u>	<u>\$ 9,313</u>	<u>\$428,248</u>

Enterprise Funds**Combining Statement of Revenues, Expenses and Changes in Retained Earnings****For the Fiscal Year Ended June 30, 1999****(Expressed in Thousands)**

	Workers' Compensation Commission	Construction Assistance Revolving Loan Fund	Other Revolving Loan Funds	Total
OPERATING REVENUES:				
Licenses, permits and fees	\$ 7,888			\$ 7,888
Investment earnings		\$ 8,549	\$ 447	8,996
Insurance tax	11,100			11,100
Other	110	1,662		1,772
Total Operating Revenues	19,098	10,211	447	29,756
OPERATING EXPENSES:				
General and administrative	28,132	1,634	949	30,715
Interest		5,629		5,629
Depreciation	210			210
Amortization		259		259
Total Operating Expenses	28,342	7,522	949	36,813
Operating Income (Loss)	(9,244)	2,689	(502)	(7,057)
NON-OPERATING REVENUES (EXPENSES):				
Investment earnings	6,865			6,865
Interest	(135)			(135)
Total Non-Operating Revenue	6,730			6,730
Income (Loss) Before Operating Transfers	(2,514)	2,689	(502)	(327)
OPERATING TRANSFERS -				
Operating transfers out - primary government	(162)			(162)
NET INCOME (LOSS)	(2,676)	2,689	(502)	(489)
RETAINED EARNINGS (DEFICIT)				
AT BEGINNING OF YEAR, AS ADJUSTED	(11,346)	4,756	272	(6,318)
RETAINED EARNINGS (DEFICIT)				
AT END OF YEAR	<u>\$ (14,022)</u>	<u>\$ 7,445</u>	<u>\$(230)</u>	<u>\$ (6,807)</u>

Enterprise Funds
Combining Statement of Cash Flows
For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

	Workers' Compensation Commission	Construction Assistance Revolving Loan Fund	Other Revolving Loan Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	\$ (9,244)	\$ 2,689	\$ (502)	\$ (7,057)
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:				
Depreciation, accretion and amortization	210	259	64	533
Loss on disposals of assets	257			257
Changes in operating assets and liabilities:				
Accounts receivable	770	342	3	1,115
Investment related receivable	38	(142)	(2)	(106)
Other assets	(36)	(363)		(399)
Accounts payable and accrued expenses	(33)	544	68	579
Workers' compensation benefits payable	8,384			8,384
Other liabilities		(475)		(475)
Net Cash Provided (Used) by Operating Activities	<u>346</u>	<u>2,854</u>	<u>(369)</u>	<u>2,831</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Operating transfers out to other funds	(162)			(162)
Interest expense	(134)			(134)
Net Cash Used by Non-capital Financing Activities	<u>(296)</u>			<u>(296)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from bond issuance		19,810		19,810
Repayment of bonds		(3,155)		(3,155)
Proceeds from grants, entitlements and shared revenues		4,058	2,017	6,075
Capital lease obligation	(105)			(105)
Acquisition of capital assets	(151)		(54)	(205)
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(256)</u>	<u>20,713</u>	<u>1,963</u>	<u>22,420</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of investments		(19,240)		(19,240)
Investment earnings	6,864			6,864
Proceeds from sales and maturities of investments		2,776		2,776
Net (increase) decrease in loans		(1,038)	810	(228)
Net Cash Provided (Used) by Investing Activities	<u>6,864</u>	<u>(17,502)</u>	<u>810</u>	<u>(9,828)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>6,658</u>	<u>6,065</u>	<u>2,404</u>	<u>15,127</u>
CASH AND CASH EQUIVALENTS:				
Beginning of year	<u>137,887</u>	<u>39,049</u>	<u>5,337</u>	<u>182,273</u>
End of year	<u>\$144,545</u>	<u>\$ 45,114</u>	<u>\$7,741</u>	<u>\$197,400</u>



Trust & Agency Funds



Highway 65 – Searcy County

U.S. Highway 65, on the state's major north-south arteries, snakes its way through the beautiful Ozark Mountains in Searcy County.



TRUST AND AGENCY FUNDS

Trust and agency funds are used to account for assets held by the State in a fiduciary capacity or as an agent for individuals, private organizations, or other governments and/or funds. The trust and agency funds consist of the following:

Expendable Trust Fund - This fund is accounted for in essentially the same manner as governmental funds and is administered by the Arkansas Employment Security Department to eligible unemployed workers.

Pension Trust Funds - These funds are accounted for in essentially the same manner as proprietary funds, and includes Judicial, Teacher, State Police, Highway, and APERS retirement plans.

Agency Funds - These funds are custodial in nature and do not involve measurement of operations. Included in these funds are assets held by the Insurance Department and various other state agencies.



Trust and Agency Funds Combining Balance Sheet

June 30, 1999

(Expressed in Thousands)

	Expendable Trust	Pension Trust		
	Employment Security Division	Judicial	Teacher	State Police
ASSETS:				
Cash and cash equivalents	\$239,596	\$ 3,588	\$ 359,503	\$ 66,248
Investments		99,624	7,886,238	215,855
Receivables, net:				
Accounts	48,488		27	
Employer			4,221	175
Employee			5,042	
Investment related		1,037	231,813	2,791
Due from other governments	5,707			
Due from other funds - primary government	229			
Advances to other funds - primary government			22,923	
Fixed assets, net			817	
Other assets				
TOTAL ASSETS	<u>\$294,020</u>	<u>\$ 104,249</u>	<u>\$ 8,510,584</u>	<u>\$285,069</u>
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts payable		\$ 467	\$ 16	
Accrued and other liabilities	\$ 45,045		1,107,926	\$ 74,598
Due to other governments	10			
Due to other funds - primary government	93			
Agency liabilities				
Total Liabilities	<u>45,148</u>	<u>467</u>	<u>1,107,942</u>	<u>74,598</u>
Fund balance:				
Reserved for unemployment compensation	248,872			
Reserved for employee pension benefits		103,782	7,402,642	210,471
Total Fund Balance	<u>248,872</u>	<u>103,782</u>	<u>7,402,642</u>	<u>210,471</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$294,020</u>	<u>\$ 104,249</u>	<u>\$ 8,510,584</u>	<u>\$285,069</u>

Agency Funds				
Highway	APERS	Insurance Department	Other Agencies	Total
\$ 25,340	\$ 232,610	\$ 26,165	\$ 34,970	\$ 988,020
835,926	4,129,445	416,691	575	13,584,354
				48,515
1,065	3,601			9,062
327				5,369
7,684	36,322	13		279,660
			94	5,801
				229
				22,923
	133			950
	8			8
<u>\$870,342</u>	<u>\$ 4,402,119</u>	<u>\$442,869</u>	<u>\$ 35,639</u>	<u>\$ 14,944,891</u>
				\$ 483
\$ 10	\$ 496,123			1,723,702
			\$ 51	61
				93
		<u>\$442,869</u>	<u>35,588</u>	<u>478,457</u>
<u>10</u>	<u>496,123</u>	<u>442,869</u>	<u>35,639</u>	<u>2,202,796</u>
				248,872
<u>870,332</u>	<u>3,905,996</u>			<u>12,493,223</u>
<u>870,332</u>	<u>3,905,996</u>			<u>12,742,095</u>
<u>\$870,342</u>	<u>\$ 4,402,119</u>	<u>\$442,869</u>	<u>\$ 35,639</u>	<u>\$ 14,944,891</u>

Pension Trust Funds **Combining Statement of Changes in Plan Net Assets Held in Trust for** **Pension Benefits**

For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

	Judicial	Teacher	State Police	Highway	APERS	Total
ADDITIONS:						
Contributions:						
Employer	\$ 4,069	\$ 166,786	\$ 6,748	\$ 14,499	\$ 93,323	\$ 285,425
Employee	685	50,842		6,925	453	58,905
Total Contributions	4,754	217,628	6,748	21,424	93,776	344,330
Investment income:						
Net appreciation in fair value of investments	9,268	600,311	9,854	93,040	194,252	906,725
Interest	2,881	134,581	5,427	30,891	80,380	254,160
Dividends	487	60,948	1,476	1,344	17,846	82,101
Real estate operating income (loss)		1,928			(98)	1,830
Other		27,933	3,183	377	26,345	57,838
Less investment expense	(429)	(43,044)	(3,772)	(1,777)	(36,783)	(85,805)
Net Investment Income	12,207	782,657	16,168	123,875	281,942	1,216,849
Other additions - Miscellaneous revenues	148	1,717	60		7,494	9,419
TOTAL ADDITIONS	17,109	1,002,002	22,976	145,299	383,212	1,570,598
DEDUCTIONS:						
Annuity benefits	3,303	243,874	7,731	27,734	99,225	381,867
Refunds of employee contributions	75	3,405		1,219	56	4,755
Administrative expenses	38	7,640	56		3,503	11,237
Other deductions				4,986	70	5,056
TOTAL DEDUCTIONS	3,416	254,919	7,787	33,939	102,854	402,915
NET INCREASE	13,693	747,083	15,189	111,360	280,358	1,167,683
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT BEGINNING OF YEAR	90,089	6,655,559	195,282	758,972	3,625,638	11,325,540
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT END OF YEAR	\$ 103,782	\$ 7,402,642	\$210,471	\$870,332	\$ 3,905,996	\$ 12,493,223

Pension Trust Funds **Statement of Net Plan Assets**

June 30, 1999

(Expressed in Thousands)

	<u>Judicial</u>	<u>Teacher</u>	<u>State Police</u>	<u>Highway</u>	<u>APERS</u>
ASSETS					
Cash and cash equivalents	\$ 3,588	\$ 359,503	\$ 66,248	\$ 25,340	\$ 232,610
Investments	99,624	7,886,238	215,855	835,926	4,129,445
Receivables, net:					
Accounts		27			
Employer		4,221	175	1,065	3,601
Employee		5,042		327	
Investment related	1,037	231,813	2,791	7,684	36,322
Advances to other funds - primary government		22,923			
Fixed assets, net		817			133
Other assets					8
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 104,249</u>	<u>\$ 8,510,584</u>	<u>\$285,069</u>	<u>\$870,342</u>	<u>\$ 4,402,119</u>
LIABILITIES					
Accounts payable	\$ 467	\$ 16			
Accrued and other liabilities		1,107,926	\$ 74,598	\$ 10	\$ 496,123
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>467</u>	<u>1,107,942</u>	<u>74,598</u>	<u>10</u>	<u>496,123</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
	<u>\$ 103,782</u>	<u>\$ 7,402,642</u>	<u>\$210,471</u>	<u>\$870,332</u>	<u>\$ 3,905,996</u>

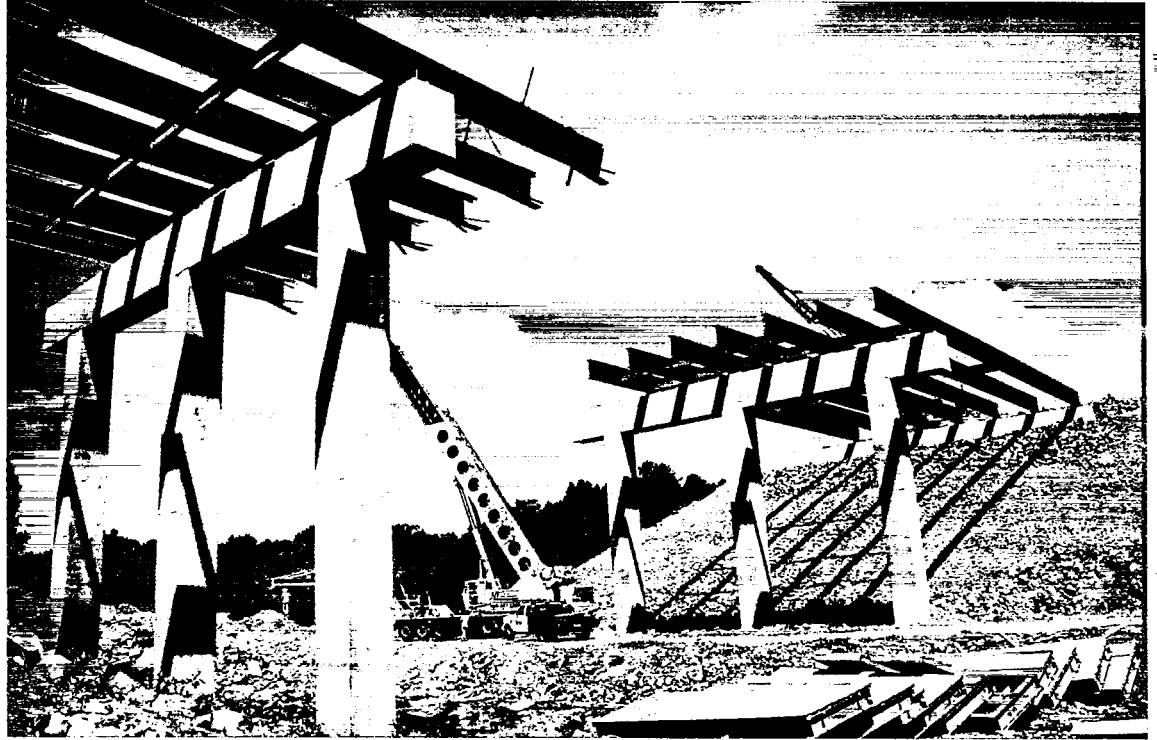
Agency Funds

Combining Statement of Changes in Assets and Liabilities

For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

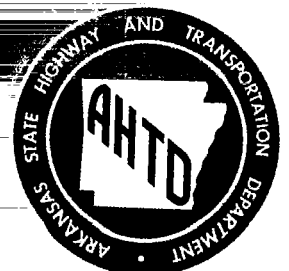
	Balance June 30, 1998	Additions	Deductions	Balance June 30, 1999
INSURANCE DEPARTMENT:				
Assets:				
Cash and cash equivalents	\$ 25,902	\$ 782	\$ 519	\$ 26,165
Investments	412,085	4,606		416,691
Investment related receivables	19		6	13
TOTAL	<u>\$438,006</u>	<u>\$ 5,388</u>	<u>\$ 525</u>	<u>\$442,869</u>
Liabilities -				
Agency liabilities	<u>\$438,006</u>	<u>\$ 5,388</u>	<u>\$ 525</u>	<u>\$442,869</u>
OTHER AGENCIES:				
Assets:				
Cash and cash equivalents	\$ 49,417	\$ 2,521,453	\$ 2,535,900	\$ 34,970
Investments	575			575
Due from other governments	67	27		94
TOTAL	<u>\$ 50,059</u>	<u>\$ 2,521,480</u>	<u>\$ 2,535,900</u>	<u>\$ 35,639</u>
Liabilities:				
Due to other governments	\$ 59		\$ 8	\$ 51
Agency liabilities	<u>50,000</u>	<u>\$ 2,521,480</u>	<u>2,535,892</u>	<u>35,588</u>
TOTAL	<u>\$ 50,059</u>	<u>\$ 2,521,480</u>	<u>\$ 2,535,900</u>	<u>\$ 35,639</u>

Higher Education Fund



Twin Groves off Highway 65

Arkansas has made great strides in recent years in replacing older, less efficient bridges with newer, safer ones.



Higher Education Fund

State Board of Higher Education - The State Board of Higher Education is empowered with the duty to determine, control, supervise and manage the financial, business and educational policies and affairs of the state institutions of Higher Education under its jurisdiction. These institutions are as follows:

State Colleges and Universities:

Four Year:

- University of Arkansas System
 - Regional Campuses of University of Arkansas:
 - University of Arkansas at Fayetteville
 - University of Arkansas at Little Rock
 - University of Arkansas at Monticello
 - University of Arkansas at Pine Bluff
 - Specialized Institutions:
 - University of Arkansas School of Law
 - University of Arkansas for Medical Sciences
- Arkansas State University
- Arkansas Tech University
- Henderson State University
- Southern Arkansas University
- University of Central Arkansas

Community Colleges:

- East Arkansas Community College
- Garland County Community College
- Mississippi County Community College
- North Arkansas College
- Northwest Arkansas Community College
- Phillips Community College of the U of A
- Rich Mountain Community College
- Westark College
- South Arkansas Community College

Two Year Branches:

- Southern Arkansas University - Tech
- Arkansas State University - Beebe
- Arkansas State University - Mountain Home
- Black River Technical College
- Cossatot Technical College
- Ozarka College
- Petit Jean College
- Ouachita Technical College
- University of Arkansas Community College at Hope
- Mid-South Community College
- Southeast Arkansas College
- Pulaski Technical College
- University of Arkansas Community College at Batesville



Higher Education Fund Combining Balance Sheet

June 30, 1999

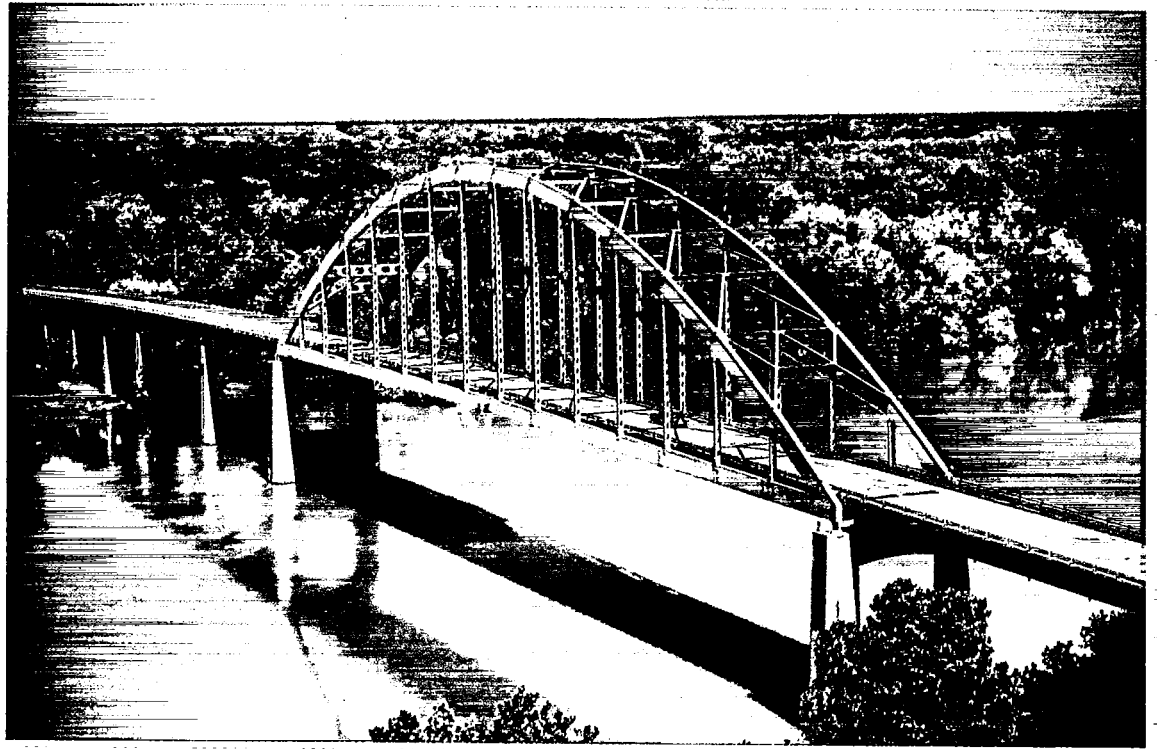
(Expressed in Thousands)

	Current Funds			Endowment and Similar
	Unrestricted	Restricted	Loan	
ASSETS:				
Cash and cash equivalents	\$127,896	\$ 15,042	\$ 3,238	\$ 4,294
Investments	49,395	17,484	2,875	118,442
Receivables, net:				
Accounts	106,249	23,850	8,680	38
Notes and deposits	2,547	14	35,398	
Investment related	171	2	1,031	
Due from other funds - primary government	4,022			
Due from other funds - higher education	8,037	159	5	
Inventories	16,013	667		
Fixed assets, net				
Other assets	8,488	590	155	784
Total assets	<u>\$322,818</u>	<u>\$ 57,808</u>	<u>\$ 51,382</u>	<u>\$ 123,558</u>
LIABILITIES, EQUITY AND OTHER CREDITS:				
Liabilities:				
Accounts payable	\$ 47,551	\$ 3,038	\$ 112	
Accrued and other liabilities	66,847	1,623	451	\$ 802
Deferred revenues	12,289	1,266		
Due to other funds - primary government	856			
Due to other funds - higher education	5,727	5,518		1,180
Advances from other funds				
Capital leases				
Notes payable				
Revenue bonds				
Total Liabilities	<u>133,270</u>	<u>11,445</u>	<u>563</u>	<u>1,982</u>
Equity and other credits:				
Net investment in fixed assets				
Fund balance:				
Reserved for:				
General		46,363		
Student loans			50,819	
Endowment				121,576
Unexpended plant				
Renewals and replacements				
Retirement of indebtedness				
Unreserved	189,548			
Total Equity and Other Credits	<u>189,548</u>	<u>46,363</u>	<u>50,819</u>	<u>121,576</u>
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	<u>\$322,818</u>	<u>\$ 57,808</u>	<u>\$ 51,382</u>	<u>\$ 123,558</u>

<u>Plant Funds</u>	<u>Agency Fund</u>	<u>Total</u>
\$ 261,092	\$ 4,011	\$ 415,573
82,867	273,933	544,996
3,531	123	142,471
6,985		44,944
911		2,115
		4,022
5,627	51	13,879
		16,680
2,120,636		2,120,636
3,734		13,751
<u>\$ 2,485,383</u>	<u>\$ 278,118</u>	<u>\$ 3,319,067</u>
\$ 14,384	\$ 212	\$ 65,297
3,014	277,904	350,641
		13,555
		856
1,452	2	13,879
16,430		16,430
5,826		5,826
12,188		12,188
418,921		418,921
<u>472,215</u>	<u>278,118</u>	<u>897,593</u>
1,759,375		1,759,375
		46,363
		50,819
		121,576
116,728		116,728
13,981		13,981
25,797		25,797
97,287		286,835
<u>2,013,168</u>	<u></u>	<u>2,421,474</u>
<u>\$ 2,485,383</u>	<u>\$ 278,118</u>	<u>\$ 3,319,067</u>



General Fixed Assets Account Group



Highway 38 – Des Arc

The Highway 38 White River Bridge at Des Arc in Prairie County provides a vital link for vehicles across one of Arkansas' navigable waterways.



GENERAL FIXED ASSETS ACCOUNT GROUP

The General Fixed Assets Account Group is maintained to account for fixed assets acquired or constructed for use by the State for general governmental purposes. These include all fixed assets except those accounted for in the Proprietary, Fiduciary and Higher Education Funds and Component Units.

Schedule of General Fixed Assets by Source

June 30, 1999 (Expressed in Thousands)

General Fixed Assets:	
Land	\$ 169,519
Buildings	624,383
Equipment	220,963
Construction in progress	70,625
Total General Fixed Assets	<u>\$ 1,085,490</u>
Investment in General Fixed Assets by Source -	
General fund	\$ 1,085,490
Total Investment in General Fixed Assets	<u>\$ 1,085,490</u>

Schedule of General Fixed Assets by Function and Activity

June 30, 1999 (Expressed in Thousands)

Function and Activity	Land	Buildings	Equipment	Construction in Progress	Total
Education	\$ 960	\$ 42,254	\$ 16,547	\$ 1,248	\$ 61,009
Health and human resources	4,253	141,728	17,661	1,316	164,958
Transportation	1,069	54,116	78,997		134,182
Law, justice and public safety	33,042	246,986	48,499	45,191	373,718
Recreation and resource development	121,153	58,880	19,816	18,380	218,229
General government	8,797	71,037	31,628	4,135	115,597
Regulation of business and professionals	245	9,382	7,815	355	17,797
Total	<u>\$169,519</u>	<u>\$624,383</u>	<u>\$220,963</u>	<u>\$ 70,625</u>	<u>\$ 1,085,490</u>

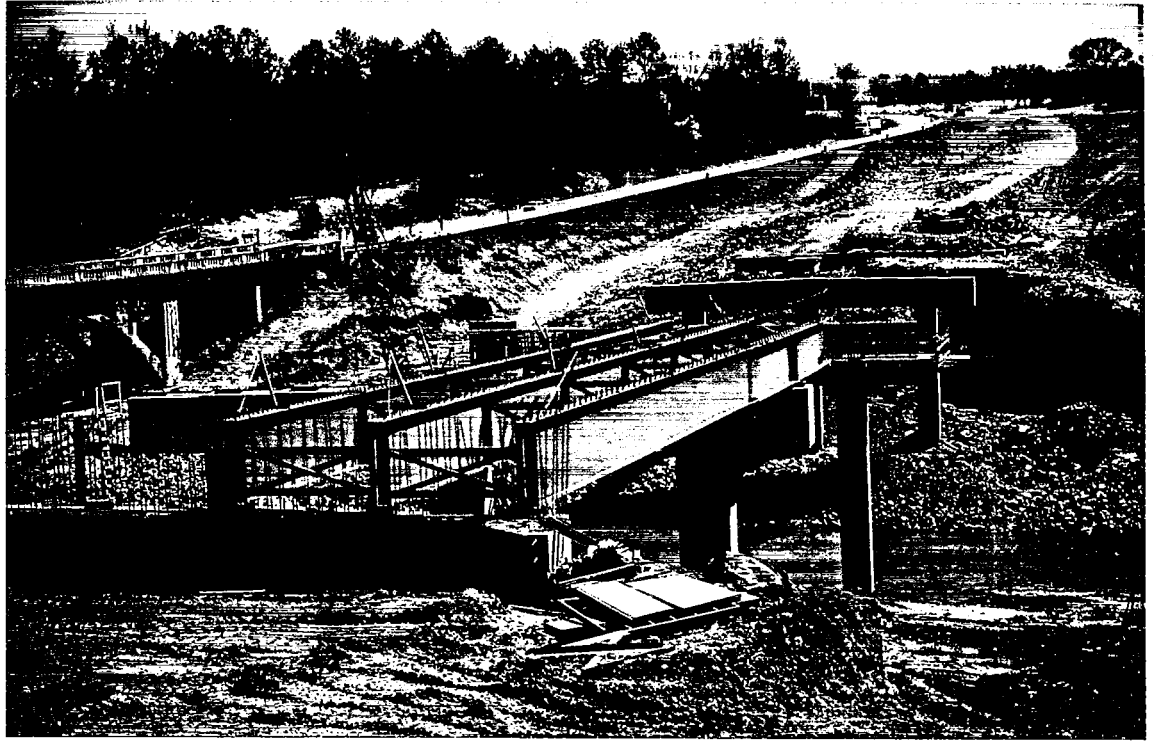
Schedule of Changes in General Fixed Assets by Function and Activity

For the Fiscal Year Ended June 30, 1999 (Expressed in Thousands)

Function and Activity	Balance June 30, 1998	Additions	Deletions	Balance June 30, 1999
Education	\$ 56,817	\$ 4,507	\$ 315	\$ 61,009
Health and human resources	158,249	7,459	750	164,958
Transportation	132,490	7,441	5,749	134,182
Law, justice and public safety	356,815	27,134	10,231	373,718
Recreation and resource development	198,863	24,964	5,598	218,229
General government	107,049	10,405	1,857	115,597
Regulation of business and professionals	17,618	476	297	17,797
Total	<u>\$ 1,027,901</u>	<u>\$ 82,386</u>	<u>\$ 24,797</u>	<u>\$ 1,085,490</u>



Discretely Presented Component Units



Highway 65 – Faulkner County

Improving the alignment of the highway was one of the benefits of widening Highway 65 from Greenbrier to Damascus, including this new bridge crossing Cadron Creek.



DISCRETELY PRESENTED COMPONENT UNITS

Component Units are those entities which are legally separate government organizations for which the State's elected officials are financially accountable, or other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading. Discretely Presented Component Units consist of the following:

Arkansas Student Loan Authority - ASLA provides guaranteed educational loans to Arkansas students attending eligible post secondary institutions, and serves as a secondary market and liquidity provider to Arkansas lending institutions which originate guaranteed student loans.

Arkansas Development Finance Authority - ADFA provides financing through the issuance of taxable and tax-exempt bonds for housing, industry, local governments, education, agricultural enterprise, health care, infrastructure projects, jails and prisons. ADFA also offers direct loans for housing, small minority businesses, agriculture and exporting.

Discretely Presented Component Units Combining Balance Sheet

June 30, 1999

(Expressed in Thousands)

	Arkansas Student Loan Authority	Arkansas Development Finance Authority	Total
ASSETS:			
Cash and cash equivalents	\$ 97	\$ 155,841	\$ 155,938
Investments	33,331	887,890	921,221
Receivables, net:			
Accounts		3,703	3,703
Loans	195,442	409,203	604,645
Investment related	3,230	8,749	11,979
Fixed assets, net	20	475	495
Other assets	3,925	91,455	95,380
TOTAL ASSETS	\$ 236,045	\$ 1,557,316	\$ 1,793,361
LIABILITIES AND RETAINED EARNINGS:			
EARNINGS:			
Liabilities:			
Accounts payable	\$ 3,933	\$ 2,576	\$ 6,509
Accrued and other liabilities		56,623	56,623
Revenue bonds payable	219,781		219,781
Special obligation bonds payable		1,376,337	1,376,337
Total Liabilities	223,714	1,435,536	1,659,250
Retained earnings:			
Unreserved	12,331	40,473	52,804
Reserved for bond programs		81,307	81,307
Total Retained Earnings	12,331	121,780	134,111
TOTAL LIABILITIES AND RETAINED EARNINGS	\$ 236,045	\$ 1,557,316	\$ 1,793,361

Discretely Presented Component Units

Combining Statement of Revenues, Expenses and Changes in Retained Earnings

For the Fiscal Year Ended June 30, 1999

(Expressed in Thousands)

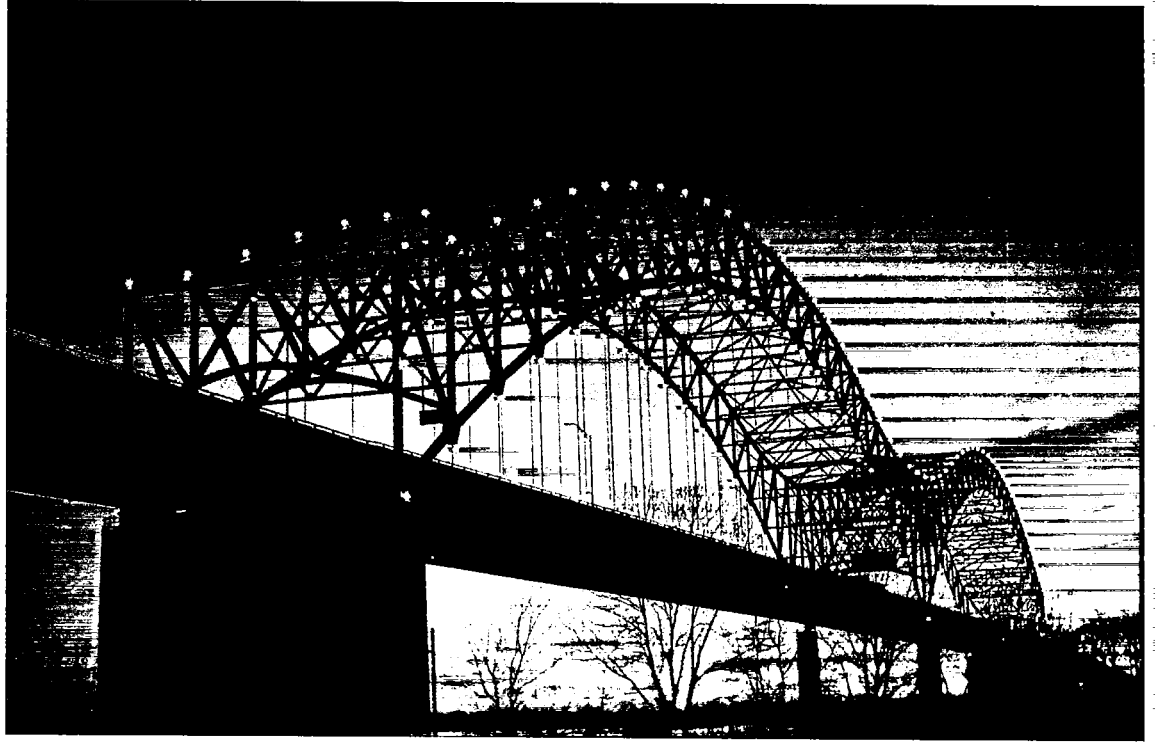
	Arkansas Student Loan Authority	Arkansas Development Finance Authority	Total
OPERATING REVENUES:			
Investment earnings	\$ 16,326	\$ 81,198	\$ 97,524
Other	889	291	1,180
Total Operating Revenues	17,215	81,489	98,704
OPERATING EXPENSES:			
General and administration	517	18,800	19,317
Interest	10,009	90,806	100,815
Other	3,919		3,919
Total Operating Expenses	14,445	109,606	124,051
Operating Income (Loss)	2,770	(28,117)	(25,347)
NON-OPERATING REVENUE -			
Grants, entitlements and shared revenues		17,182	17,182
Total Non-operating Revenue		17,182	17,182
NET INCOME (LOSS)	2,770	(10,935)	(8,165)
RETAINED EARNINGS AT BEGINNING OF YEAR, AS ADJUSTED	9,561	132,715	142,276
RETAINED EARNINGS AT END OF YEAR	\$ 12,331	\$ 121,780	\$ 134,111

Discretely Presented Component Units Combining Statement of Cash Flows

For the Fiscal Year Ended June 30, 1999
(Expressed in Thousands)

	Arkansas Student Loan Authority	Arkansas Development Finance Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income (loss)	\$ 2,770	\$ (28,117)	\$ (25,347)
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:			
Depreciation, accretion and amortization, net	571	(4,671)	(4,100)
Provision for arbitrage rebate	600		600
Net depreciation on investments		24,508	24,508
Provision for loan loss		380	380
Changes in operating assets and liabilities:			
Accounts receivable		5,679	5,679
Loans receivable	(18,017)	96,530	78,513
Investment related receivable	(419)	(2,502)	(2,921)
Other assets	(129)	374	245
Accounts payable and accrued expenses	(93)	(47,660)	(47,753)
Other liabilities		(1,318)	(1,318)
Net Cash (Used) Provided by Operating Activities	<u>(14,717)</u>	<u>43,203</u>	<u>28,486</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Proceeds from issuance of bonds		337,816	337,816
Repayment of bonds	(11,150)	(350,221)	(361,371)
Payment of debt issuance costs		(2,305)	(2,305)
Collection of financing fees		1,250	1,250
Net Cash Used by Non-capital Financing Activities	<u>(11,150)</u>	<u>(13,460)</u>	<u>(24,610)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES -			
Proceeds from grants, entitlements and shared revenues		17,182	17,182
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(2,335)	(987,770)	(990,105)
Proceeds from sales and maturities of investments	28,251	883,268	911,519
Lease payments received		9,825	9,825
Net Cash Provided (Used) by Investing Activities	<u>25,916</u>	<u>(94,677)</u>	<u>(68,761)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	49	(47,752)	(47,703)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	48	203,593	203,641
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 97</u>	<u>\$ 155,841</u>	<u>\$ 155,938</u>





I-40 – Memphis

The I-40 Mississippi River Bridge at Memphis presents a picturesque silhouette against the early evening sky around sunset.

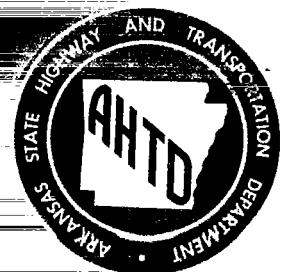


Table 1
Expenditures By Function
General Fund/Year Ended June 30
(Expressed in Thousands)

	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Education	\$ 1,959,309	\$ 1,883,809	\$ 1,812,291	\$ 1,690,844
Health and human resources	2,614,967	2,496,628	2,437,633	2,297,385
Transportation	559,572	635,188	677,638	579,417
Law, justice and public safety	311,176	265,313	282,258	241,228
Recreation and resource development	170,619	177,838	163,937	178,519
General government	992,322	724,127	751,164	783,378
Regulation of business and professionals	139,345	121,450	147,064	130,339
Debt service	57,917	54,876	77,360	27,413
Capital outlay	120,525	110,988	184,003	94,874
Other				
Total Expenditures	<u>\$ 6,925,752</u>	<u>\$ 6,470,217</u>	<u>\$ 6,533,348</u>	<u>\$ 6,023,397</u>

NOTE: The expenditures for fiscal years 1994 through 1990 are shown on a cash basis.

Table 2
Revenues By Source
General Fund/Year Ended June 30
(Expressed in Thousands)

	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Taxes:				
Personal income	\$ 1,625,316	\$ 1,553,778	\$ 1,378,162	\$ 1,328,615
Consumer sales	1,560,892	1,476,686	1,435,841	1,364,977
Corporate net income	248,664	268,605	236,538	259,056
Gas and motor carrier	386,503	368,050	355,586	353,598
Other	353,136	361,071	312,704	407,647
Intergovernmental	2,459,368	2,387,385	2,335,367	2,213,786
Licenses, permits and fees	438,174	414,338	381,498	355,742
Investment earnings	108,000	90,169	68,888	66,033
Other	390,236	241,826	386,352	361,376
Total Revenues	<u>\$ 7,570,289</u>	<u>\$ 7,161,908</u>	<u>\$ 6,890,936</u>	<u>\$ 6,710,830</u>

NOTE: The revenues for fiscal years 1994 through 1990 are shown on a cash basis.

1995	1994	1993	1992	1991	1990
\$1,629,154	\$1,539,641	\$1,415,624	\$1,384,835	\$1,228,314	\$1,139,096
2,067,465	2,834,720	1,885,566	2,571,880	2,052,311	1,531,686
483,972	517,992	510,369	513,979	396,162	340,603
200,574	268,862	240,411	197,277	180,454	149,475
150,509	132,716	136,780	114,284	117,197	120,001
722,077	954,499	757,474	346,702	306,314	269,932
126,415	95,751	85,913	111,519	102,143	99,340
9,184	12,374	45,328	9,920		
73,812	6,984	11,912			
			4,324		
<u>\$5,463,162</u>	<u>\$6,363,539</u>	<u>\$5,089,377</u>	<u>\$5,254,720</u>	<u>\$4,382,895</u>	<u>\$3,650,133</u>

1995	1994	1993	1992	1991	1990
\$1,227,075	\$1,117,530	\$1,051,909	\$ 970,883	\$ 908,054	\$ 843,986
1,312,884	1,220,868	1,429,880	1,039,540	890,592	843,226
214,712	204,027	177,368	152,218	134,812	149,570
348,296	334,691	315,540	349,881	228,985	228,083
328,390	306,335	295,988	202,725	196,552	193,757
1,990,879	1,731,468	1,625,469	1,519,246	1,296,045	1,060,709
255,279	227,750	194,456	182,783	157,621	154,778
48,931	25,483	30,119	12,984	13,561	12,914
333,038	1,473,901	366,649	1,413,874	1,019,139	645,273
<u>\$6,059,484</u>	<u>\$6,642,053</u>	<u>\$5,487,378</u>	<u>\$5,844,134</u>	<u>\$4,845,361</u>	<u>\$4,132,296</u>

Table 3

Ratio of Outstanding General Obligation Debt to Assessed Value and Net Debt Per Capita For the Last Ten Fiscal Years (Expressed in Thousands - Except for Ratio and Per Capita Data)

For the Year Ended June 30	Population	Assessed Property Value	General Obligation Debt	Net General Obligation Debt	
				Per Capita	Ratio Assessed Value
1999	2,557	\$21,648,239	\$ 388,336	151.87	0.018
1998	2,538	20,796,084	400,402	157.76	0.019
1997	2,519	19,894,960	299,101	118.74	0.015
1996	2,500	18,383,044	244,683	97.87	0.013
1995	2,480	17,020,575	146,729	59.16	0.009
1994	2,449	16,638,626	149,261	60.95	0.009
1993	2,422	15,755,563	148,035	61.12	0.009
1992	2,392	15,200,446	132,040	55.20	0.009
1991	2,369	14,652,881	37,420	15.80	0.003
1990	2,353	13,878,920	28,075	11.93	0.002

Sources:

Population: State of Arkansas Department of Finance and Administration Economic Analysis and Tax Research

Assessed Property Value: Assessment Coordination Division of the Public Service Commission

Table 4

Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Fund Revenues and Expenditures For the Last Ten Fiscal Years (Expressed in Thousands)

For the Year Ended June 30	Debt Service	Total Revenue	Ratio	Total Expenditures	Ratio
1999	\$57,917	\$7,570,289	.0077	\$6,925,752	.0084
1998	54,876	7,161,908	.0077	6,470,217	.0085
1997	77,360	6,890,936	.0112	6,533,348	.0118
1996	27,413	6,710,830	.0041	6,023,397	.0046
1995	9,184	6,059,484	.0015	5,463,162	.0017
1994	12,374	6,960,842	.0018	6,363,539	.0019
1993	45,328	5,487,378	.0083	5,089,377	.0089
1992	9,920	5,844,134	.0017	5,254,720	.0019
1991	14,490	4,845,361	.0030	4,382,895	.0033
1990	8,886	4,132,296	.0022	3,650,133	.0024

Table 5
Revenue Bond Coverage
For the Last Ten Years
(Expressed in Thousands)

	<u>Gross Revenue (1)</u>	<u>Direct Operating Expense</u>	<u>Net Revenue Available For Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Coverage</u>
Arkansas Student Loan Authority							
1999	\$42,470	\$ 2,775	\$39,695	\$1,665	\$12,002	\$ 13,667	2.90
1998	37,510	2,572	34,938	2,100	12,200	14,300	2.44
1997	33,702	2,360	31,342	8,570	12,554	21,124	1.48
1996	31,471	2,076	29,395	2,575	10,968	13,543	2.17
1995	29,253	2,001	27,252	3,200	10,379	13,579	2.01
1994	22,198	1,673	20,525	3,415	7,470	10,885	1.89
1993	16,257	1,435	14,822	3,680	5,315	8,995	1.65
1992	12,876	1,216	11,660	6,680	3,734	10,414	1.12
1991	12,634	1,067	11,567	3,150	4,612	7,762	1.49
1990	12,627	1,135	11,492	3,400	5,634	9,034	1.27

(1) Includes principal payments on student loans which are available for debt service.

Table 6
Demographic Statistics
For the Last Ten Years
(Expressed in Thousands)

<u>Calendar Year</u>		<u>Total Population</u>	<u>Per Capita Personal Income</u>	<u>Unemployment Rate</u>
1999	(forecast)	2,557	\$21,187	4.6 %
1998		2,538	20,395	5.5 %
1997		2,519	19,626	5.3 %
1996		2,500	18,844	5.4 %
1995		2,480	17,935	4.9 %
1994		2,449	17,096	5.3 %
1993		2,422	16,392	6.1 %
1992		2,392	15,821	7.2 %
1991		2,369	14,776	7.3 %
1990		2,353	14,033	6.9 %

Source:

State of Arkansas Department of Finance and Administration Economic Analysis and Tax Research

Table 7
Economic Statistics
For the Last Ten Years
(Expressed in Millions)

<u>Calendar Year</u>	<u>Gross State Product (Stated in 1992 Dollars)</u>	<u>Personal Income</u>
1999	\$56,043	\$54,171
1998	54,453	51,763
1997	53,209	49,442
1996	51,445	47,116
1995	49,690	44,478
1994	48,251	41,881
1993	45,355	39,704
1992	43,810	37,845
1991	41,623	35,003
1990	40,059	33,020

Source:

State of Arkansas Department of Finance and Administration Economic Analysis and Tax Research

Table 8
Property Values, Taxable Sales, Bank Deposits and Bank Loans
(Expressed in Millions - Except for Bank Number Data)

<u>Calendar Year Ended</u>	<u>Assessed Property Values</u>	<u>Retail Sales</u>	<u>Banks</u>			
			<u>Number</u>	<u>Deposits</u>	<u>Loans</u>	<u>Assets</u>
1999	\$ 21,648	\$ 24,669	N/A	N/A	N/A	N/A
1998	20,796	22,991	202	\$ 21,503	\$ 14,772	\$ 25,128
1997	19,895	23,047	226	24,704	17,159	28,735
1996	18,383	22,041	233	26,453	17,515	30,633
1995	17,021	20,666	242	24,057	16,298	27,987
1994	16,639	19,295	257	23,431	14,085	27,085
1993	15,756	17,925	257	22,109	12,642	25,164
1992	15,200	16,667	258	21,534	11,636	24,371
1991	14,653	15,712	255	19,388	11,060	21,860
1990	13,879	15,433	257	17,638	10,308	19,990

N/A - Information not available.

Sources:

Assessed Property Value: Assessment Coordination Division of the Public Service Commission
Taxable Sales: State of Arkansas Department of Finance and Administration
Economic Analysis and Tax Research
Banks: State Bank Department; FDIC Database

Table 9
Twenty-five Largest Private Sector Employers in Arkansas

	<u>Company</u>	<u>Number of Employees</u>
1.	Wal-Mart Stores Inc.	32,500
2.	Tyson Foods Inc.	24,445
3.	ConAgra Inc.	5,433
4.	Beverly Enterprises Inc.	5,106
5.	Baptist Health	5,000
6.	Georgia-Pacific Corporation	4,739
7.	Alltel Corporation	4,500
8.	Emerson Electric Company	4,139
9.	International Paper Company	3,545
10.	St. Vincent Infirmiry Medical Center	3,200
11.	Whirlpool Corporation	3,100
12.	White Consolidated Industries	3,097
13.	Entergy Corporation	3,000
14.	SBC Communications Inc.	3,000
15.	J.B. Hunt Transport Services Inc.	2,900
16.	Dillard's Incorporated	2,808
17.	Arkansas Children's Hospital Inc.	2,800
18.	Kroger Co.	2,700
19.	Union Pacific Railroad Co.	2,610
20.	O.K. Industries Inc.	2,492
21.	Cargill	2,326
22.	Regions Bank of Arkansas (First Commercial)	2,292
23.	Baldor Electric Co.	2,121
24.	American Greetings Corp.	2,097
25.	Riceland Foods Inc.	2,000

Source:

Arkansas Business Book of Lists, 7th Edition

Table 10A
Miscellaneous Public Education Statistics
For the Last Ten Years

School Year Ended	Number of Schools	Average Daily Attendance	Number of Teachers	Pupil-Teacher Ratio
1999	*	*	*	*
1998	1,149	429,892	29,616	14.52
1997	1,104	426,983	29,415	14.52
1996	1,095	420,901	29,344	14.34
1995	1,095	418,222	28,875	14.48
1994	1,119	414,065	28,550	14.50
1993	1,082	411,306	28,180	14.60
1992	1,095	409,174	28,206	14.51
1991	1,103	406,631	25,360	16.03
1990	1,097	405,586	25,110	16.15

* - Information not available for 1999.

Source:

Annual Status Report of the Public Schools of Arkansas and Arkansas Statistical Abstract

Calendar Year Ended	Expenditure on Education Per Pupil in Daily Attendance			% Revenue from State Government		
	U.S.	AR	AR Rank	U.S.	AR	AR Rank
1999	*	*	*	*	*	*
1998	*	\$4,497	*	*	*	*
1997	\$6,335	4,383	48	48.70 %	65.90 %	6
1996	6,103	4,353	48	47.90	65.40	7
1995	5,894	4,059	49	46.00	63.60	9
1994	5,730	3,949	49	45.80	62.70	11
1993	5,616	3,928	47	46.90	62.30	11
1992	5,466	3,770	46	47.90	62.80	12
1991	5,261	3,334	48	48.90	61.20	12
1990	4,890	3,272	48	48.70	59.50	13

* - Information not available.

Source:

National Education Association Research, Rankings of the States - 1997

Table 10B
Miscellaneous Higher Education Statistics
For the Last Ten Years

Public Institutions

	Fall Net Enrollment	Degrees Awarded		
		Undergraduate	Graduate	Total
1998-99	97,742	13,027	2,951	15,978
1997-98	95,435	12,743	2,869	15,612
1996-97	92,069	13,152	2,910	16,062
1995-96	90,276	12,543	2,729	15,272
1994-95	89,466	11,907	2,823	14,730
1993-94	89,230	11,684	2,754	14,438
1992-93	88,764	11,351	2,641	13,992
1991-92	81,121	9,126	2,408	11,534
1990-91	77,554	8,515	2,297	10,812
1989-90	73,035	8,125	2,370	10,495

Private Institutions

	Fall Net Enrollment	Degrees Awarded		
		Undergraduate	Graduate	Total
1998-99	10,781	1,871	76	1,947
1997-98	10,698	1,950	80	2,030
1996-97	11,116	1,893	90	1,983
1995-96	10,969	1,786	80	1,866
1994-95	10,703	1,566	59	1,625
1993-94	10,602	1,634	73	1,707
1992-93	10,422	1,675	62	1,737
1991-92	10,145	1,730	63	1,793
1990-91	10,051	1,616	105	1,721
1989-90	9,788	1,601	92	1,693

Source:

On-Campus Enrollment and Geographic Origins in Arkansas Higher Education - Fall 1989-1993; Fall Student Enrollments 1998.

Annual Summary Report of Degrees Granted by Arkansas Institutions of Higher Education, 1990-91 to 1994-95; Degrees and Certificates Awarded by Arkansas Higher Education, 1995-96 to 1998-99.

Table 11
Miscellaneous Statistics

Date of Statehood	1836
Form of Government	Constitutional Representative Government
Land Area	34,036,700 Acres
Miles of State Highway	16,351
State Police Protection:	
Number of Stations	17
Number of State Police	572
Higher Education (State supported):	
Number of Campuses	32
Number of Students	97,742
Recreation:	
Number of State Parks	48
Area of State Parks and Forests	51,294 Acres
Number of Museums	5



NRMSIR Inventory Control Form

- | | |
|-------------------------------|-------------------------------------|
| ANNUAL FINANCIAL
STATEMENT | <input type="checkbox"/> |
| CDR | <input type="checkbox"/> |
| CAFR | <input checked="" type="checkbox"/> |
| BUDGET | <input type="checkbox"/> |
| INTERIM | <input type="checkbox"/> |
| STATUTORY | <input type="checkbox"/> |
| DOCUMENT CORRECTION | <input type="checkbox"/> |